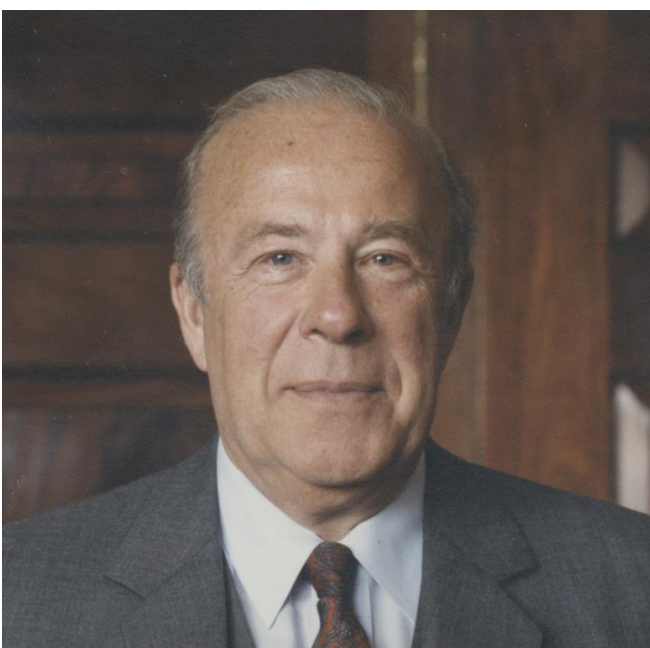


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Problems and Principles: George P. Shultz and the Uses of Economic Thinking

Interviews conducted by Paul Burnett in 2015



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George P. Shultz, photograph by Michael Mustacchi, 2011

George P. Shultz is a Distinguished Fellow at the Hoover Institution. A graduate in economics from the Massachusetts Institute of Technology, Mr. Shultz became a professor and later Dean of the Graduate School of Business at the University of Chicago. During the Nixon Administration, he was appointed Secretary of Labor, the first Director of the Office of Management and Budget, and Secretary of the Treasury. After a period as the President of Bechtel Corporation, Shultz was asked to replace Alexander Haig as Secretary of State for the remainder of the Reagan Administration. At the Hoover Institution, Mr. Shultz continues to work and publish in areas of economic policy, foreign relations, education reform, nuclear weapons, and energy security.

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Economists Life Stories Project

In 2015, the Economist Life Stories Foundation partnered with the Becker Friedman Institute for Research in Economics at the University of Chicago to capture the oral histories of distinguished senior economists around the world. The aim is to deepen our understanding of the historical context in which important economic ideas were produced and the impact of those ideas in the world. The interviews are being recorded and produced by the Oral History Center at UC Berkeley, with the aim of preserving the experiences, views, and voices of influential economists for the benefit of researchers, educators, and the broader public. We wish to thank Dr. Hodson Thornber of the Economists Life Stories Foundation and Toni Shears of the Becker Friedman Institute for their support, as well as an advisory group of historians and economists for their input. We gratefully acknowledge the generous financial support provided by Richard Elden, a member of the Becker Friedman Institute Council.

Interview #1 September 1, 2015

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01-00:00:05

Burnett: This is Paul Burnett, interviewing George P. Shultz for the Economists Life Stories project in conjunction with the Becker Friedman Institute. It is September 1, 2015 and we're here at the Hoover Institution. Mr. Shultz, I wonder if we could start at the very beginning. Could you tell me a little bit about where you were born and where you grew up?

01-00:00:32

Shultz: I was born in New York City but my parents moved to Englewood, New Jersey when I was small. So I grew up in Englewood but my father worked in New York, so in a sense New York City was the basic orientation.

01-00:00:48

Burnett: And Englewood is just a suburb in New Jersey?

01-00:00:54

Shultz: It's a suburb, sort of a bedroom community.

01-00:00:56

Burnett: Right, right. And you were born in what year?

01-00:01:02

Shultz: Nineteen twenty.

01-00:01:05

Burnett: And can you tell me a little bit about your father and mother and where they're from originally?

01-00:01:16

Shultz: My father was born in Indiana, on a farm, and I believe he was the first member of his family to go to college. He went to DePauw University. Then he got a fellowship, I guess he was a pretty good student, to come to Columbia [University], and he got a PhD in history at Columbia. He wrote a book with a famous historian, Charles A. Beard.

01-00:01:44

Shultz: Then, somehow he was asked to start—he was interested in education—to start a school on finance in Wall Street, by the New York Stock Exchange. So he started this school, which was called the New York Stock Exchange Institute. After he retired, it became a private institution. It's still going on, it's called the Institute of Finance.

01-00:02:11

Burnett: Did you ever get a sense of how he moved from history to teaching finance? How did he develop that expertise?

01-00:02:21

Shultz:

I don't know quite how it happened, although my guess is that he wanted to teach in Columbia or a good university, and there weren't very many jobs at that time, and then along came this opportunity to start what amounted to a school, the School of Wall Street it was known as. So that was appealing, he was in the field of education. At first it was a school just to teach the mechanics of how the New York Stock Exchange worked, and it gradually evolved into a school that taught about investments and portfolio management. It had a very distinguished faculty.

01-00:03:04

Burnett:

And did he begin this institute before the crash in '29?

01-00:03:09

Shultz:

This started in the early 1920s.

01-00:03:13

Burnett:

So he was there, at the epicenter of the explosion of the financial revolution in the 1920s?

01-00:03:33

Shultz:

He was there through the Great Depression, but he was a salaried employee of the stock exchange, so he wasn't as subject to the ups and downs of the stock market, although everybody felt it of course.

01-00:03:37

Burnett:

And so he understood himself as an educator.

01-00:03:40

Shultz:

Yes.

01-00:03:41

Burnett:

He published a book, a textbook, in 1936, I think. So he was in an important field and training operators on the stock exchange, is that right?

01-00:03:56

Shultz:

It started out to train people who would do the operational things that would make the exchange work, and it gradually evolved into a place where you also could learn about investment analysis and portfolio management, and things like that. And it had distinguished faculty like Benjamin Graham, the author of the famous securities analysis text.

01-00:04:27

Burnett:

I want to return to this, but could you tell me a bit about your mother's side of the family. So, on the Shultz side, there's originally German immigrants, if I'm not mistaken.

01-00:04:36

Shultz:

I think, going way back to the Revolutionary War period. My mother's side also came here a long time ago, I don't know exactly, but they were more Scotch-Welsh, and came to Boston and New York. Her father was an

Episcopal missionary and he created a church in Shoshone, Idaho, and she was a little girl there and both her parents died. So she moved back to New York City, where her father's brother was the rector in a church called All Souls Church, on Saint Nicholas Avenue. So she grew up in an Episcopal church family in New York City basically, although she was born in Idaho.

01-00:05:38

Burnett:

Do you know how your parents met, is there a story?

01-00:05:40

Shultz:

I don't know just how they met, but they were both in New York.

01-00:05:43

Burnett:

Right, right. So there was religion in the family business, so to speak. Did you grow up with religious formation or values, anything explicit?

01-00:05:58

Shultz:

My mother was a very strong Episcopalian. My father was a Quaker, so it was hard for him to put up with the ceremonial aspects of the Episcopal church but he did.

01-00:06:13

Burnett:

So he walked over to that, that side of things and attended church and services.

01-00:06:20

Shultz:

Yes.

01-00:06:22

Burnett:

Did you go to a private Episcopal school in elementary?

01-00:06:28

Shultz:

No, in Englewood, I went to the public school for a while, then I went to a school called the Englewood School for Boys, now merged with the Dwight School. In my last two years, I went to the Loomis School in Windsor, Connecticut.

01-00:06:50

Burnett:

So that's when you were about sixteen, you went to the Loomis School.

01-00:06:53

Shultz:

I guess.

01-00:06:55

Burnett:

What was that like as an experience? You went away, it was a boarding school, is that right?

01-00:07:01

Shultz:

It was a boarding school, a boy's boarding school, and I liked it. It was a good education and I played sports and I liked that.

01-00:07:15

Burnett:

So this is the 1930s, and this is in the depths of the Depression and your father is at the epicenter of, initially, a lot of financial turmoil, and social and economic turmoil. Do you recall anything from those years when you were growing up? I mean, you're in your early teens, I imagine, when you become aware that the situation has changed. Do you recall anything from the crash? You would have been nine years old at the time, I suppose.

01-00:07:53

Shultz:

Of course, the Depression was a huge dominating event, and in those days you worked Saturdays, it was not a five-day week. You worked Saturday morning. On many occasions, my father would take me with him, into New York, and I'd do chores around the office. And then we went to a place, the P&G Sandwich Shop, they had the best three-decker sandwiches, I can taste them now. But then we usually would go up to Columbia for something, a football game or an interesting lecture, something or other.

01-00:08:30

Burnett:

Your father took you to lectures?

01-00:08:32

Shultz:

He took me to events at Columbia that he thought were good. We went to Baker Field for lots of football games, and so my father and I had a good—he was a very good father.

01-00:08:47

Burnett:

Yeah, very present and invested in exposing you to new experiences, and taking you into the city, which would have been impressive. When was the first time you went into the city from...?

01-00:9:00

Shultz:

I can't remember the first time, but I know quite a few times, I'd go in with him on Saturday mornings.

01-00:09:06

Burnett:

Yeah, yeah, and see the big skyscrapers, and that must have been impressive for you. So, you went away to Loomis Chaffee and you said it was a good school, and you were interested in sports.

01-00:09:28

Shultz:

It was then the Loomis School, the Chaffee was separate then. They've since merged.

01-00:09:32

Burnett:

Oh, I see, okay. And did you have a particular academic enthusiasm? I know you were interested in sports and football in particular, I suppose. Did you have particular academic interests? Were you good at everything or...?

01-00:09:51

Shultz:

I think my experience with my father at the stock exchange during the Depression, made me feel that that's the big event, and so somehow, I was drawn to the subject of economics as a result of that. To a certain extent, I think I was more concerned about what's called the real economy, by unemployment and the idle resources, and I know that finance is all connected with it, but the realities drew me to economics, and so when I got to college that's what I majored in.

01-00:10:44

Burnett:

There was a sense of the waste of workers not working, capital idle, and of course there—

01-00:10:56

Shultz:

You could see, during the Great Depression, even a little boy could see that the economy wasn't working, and that it was a bad thing. And so somehow, if there was a subject that studied that, and you could understand it better and maybe even do something about it, that was very appealing to me.

01-00:11:14

Burnett:

Right, right. And so you chose Princeton. How did it work? At the Loomis School was it a feeder school, to a number of top universities?

01-00:11:30

Shultz:

Well, I think most of the people at Loomis went on to college somewhere.

01-00:11:33

Burnett:

Sure.

01-00:11:34

Shultz:

Princeton was near where I lived, Englewood, and my best friend from childhood's father went to Princeton, and that's where he wanted to go, so we wound up rooming together for all four years at Princeton.

01-00:11:48

Burnett:

Did he study economics as well, or a different field?

01-00:11:52

Shultz:

No.

01-00:11:57

Burnett:

And so you arrive at Princeton in...?

01-00:12:00

Shultz:

Nineteen thirty-eight.

01-00:12:01

Burnett:

Nineteen thirty-eight, so, at the edge of one crisis, at the beginning of another. Can you talk a little bit about the Princeton experience? I'm sensing you have a tremendous school pride. I notice that there are tiger—you're associated with tigers. Is that an association with the Princeton Tigers?

01-00:12:25

Shultz:

Well, that was the mascot of Princeton. So, I played football, I played basketball. I had an interesting experience as a result of football. I arrived for fall practice in my best physical condition ever and I was doing great and I thought this is going to be my year. Then I got clipped, that is, across the back of your knees, and my left knee was injured badly, so I couldn't play. My senior year, I never played. So I was asked if I would coach the freshman backfield. At that time, there was a freshman team and a varsity team. The freshmen didn't play on the varsity. So that was my first teaching experience, as I look back on it, and I do remember that telling people what to do didn't seem to work much, and it gradually dawned on me that it didn't matter what I taught, the only thing that matters is what they learned. So I had to change my style and asking them questions that would lead them to want to know what I wanted to teach them. So, it had a major effect on my thinking about how you get something across to people.

01-00:13:55

Burnett:

Right, right. And so it's somewhat Socratic, I suppose, and you want to engage them in a kind of conversation and help them to develop a thirst for learning themselves. When you started at Princeton, had you decided to major in economics right away? Because you had a minor, I think, during that period as well.

01-00:14:24

Shultz:

There was, at the time at Princeton, called the School of Public and International Affairs. It's now called the Woodrow Wilson School. But, while I majored in economics, I had some sort of affiliation with them, and they did an interesting thing. They would have a problem. In the fall semester it would be something in the domestic economy, in the spring it would be international. You studied the problem and then you were assigned a role. You would have the role of secretary of the treasury or premier of Japan, or something, and so you had to study, how does the world look from that standpoint.

01-00:15:11

Shultz:

Then you had to interact with people and argue from your point of view, and it was a good start at having to think about policy issues from the standpoint not just of what's a good idea, but how you get it to work.

01-00:15:29

Burnett:

Do you remember what role you had?

01-00:15:31

Shultz:

I don't remember precisely.

01-00:15:34

Burnett:

It would have been interesting if it had been secretary of treasury or state. So that was an early exposure to the possibilities of engaging in real world policy debates, and that was in the formal educational structure at the School of Public and International Affairs. Socially, did people discuss a wide range of

ideas that you were exposed to, because there's a whole range—people are scrounging around, trying to find solutions to the problem of the Great Depression, and there are all kinds of models, and of course there's the specter of socialism. What were some of the ranges of conversations?

01-00:16:23

Shultz:

Well you have to remember that December 7, [1941] also happened, and I was at a football game in New York City. We came out of the game and they were hawking papers saying Japan just attacked Pearl Harbor. I remember we could hardly believe it. So we got on the subway and went down to Times Square, where they have the news on the big broad tape, and there it was. So we said well it's a fact, and that was a big change.

01-00:16:54

Burnett:

Amongst your friends at Princeton, prior to December 7, 1941, were folks at Princeton talking about the politics of what the government should do? Were there socialists, in fact, at Princeton?

01-00:017:19

Shultz:

It wasn't so much a question of discussing politics, it was a question of discussing the war. There was, up at Yale [University], Kingman Brewster, who was a friend of one of my roommates, and he would come down, and he was an America Firster, in other words "don't go near the war."

01-00:17:39

Burnett:

Right.

01-00:17:40

Shultz:

And I know we all listened to him and we didn't think he was on the right track.

01-00:17:46

Burnett:

So there was some of that going on vis-à-vis the war. So, that's December 7, 1941, and you're entering your senior year.

01-00:17:59

Shultz:

I'm in the middle of my senior year.

01-00:18:01

Burnett:

You're in the middle of your senior year. So, did you enlist as a result?

01-00:18:12

Shultz:

Yes, I did. I tried to join the British Royal Air Force and I was rejected because of my eyesight. Then I joined the Marines and that process, I finished my four years at Princeton and then went to boot camp from graduation.

01-00:18:40

Burnett:

Was there an assumption that the war would be in the Pacific and that the Marines were in demand? Is that what your rationale for...?

01-00:18:50

Shultz:

Well no, I think the main focus of the war was in Europe, and then the Japanese attacked Pearl Harbor, and so there was also a Pacific war. I didn't quite realize it at the time, but anyway, the Marines wound up in the Pacific War, they were not in Europe. So I shipped out. I went from boot camp to artillery school to overseas.

01-00:19:18

Burnett:

And so this is 1942, and you had graduated with your bachelor's degree in economics, with a minor in public and international affairs. And so did that mean you went to officer school?

01-00:19:46

Shultz:

I went to boot camp and if you survived, you became a 2nd lieutenant. It was an officer training school, but it was a real boot camp.

01-00:19:57

Burnett:

Yeah. So you became a Marine definitely, in that process.

01-00:20:02

Shultz:

Yes.

01-00:20:05

Burnett:

Can you talk a little bit about—so, you were assigned to artillery. Was there an important quantitative dimension to that, I imagine, because of your training in economics? Was there a relation?

01-00:20:20

Shultz:

I didn't volunteer for it, I was just told that I was now going to Camp Lejeune, to learn something about artillery, and we wound up in antiaircraft artillery.

01-00:20:34

Burnett:

So fire control is an important feature of that.

01-00:20:37

Shultz:

Well, the gun laying process. That's where I first got introduced to what amounted to a computer, but not at that school. It was only after we were out in the field, that we got these devices.

01-00:20:49

Burnett:

Okay, okay. And how does that work? Are they mechanical computers on the site?

01-00:20:56

Shultz:

They were a box and you tracked the plane, and the computer figured out how much lead you should give your gun to hit the plane.

01-00:21:10

Burnett:

Right. And so there's obviously some calculations involved in that. So you went through, you did artillery training at Camp Lejeune.

01-00:21:27

Shultz:

I went from boot camp, which was at Quantico, Virginia, to the Marine base at New River, Carolina, North Carolina, I think. That's where the artillery training took place, and then from there we were shipped out.

01-00:21:43

Burnett:

You were in the service for the duration.

01-00:21:52

Shultz:

Yes. By the time I got back, we came back, we thought we were all being trained to be the forces that would attack the Japanese homelands. But I got on a ship full of Marines in the Palau Islands and we were hardly out of port and something called an atomic bomb was dropped, and nobody knew what it was, but we said well, if it's reported, it must be important.

01-00:22:19

Shultz:

The ship lumbers along and the second one was dropped. By the time we make port in San Diego, the war is over, so I was assigned to the Boston Navy Yard, which was a break for me, because on the one hand, my parents had moved to Western Massachusetts, when my father retired, they bought a place there, and before the war, I had applied to the graduate PhD program in economics at MIT [Massachusetts Institute of Technology], and they had accepted me. So I went over to the Boston Navy Yard, and I said "you accepted me before the war and here I am," so I started at MIT.

01-00:23:08

Burnett:

Just to back up a bit there, you were in the Marine Corps from 1942 to 1945 and you were fighting in the Pacific during that time. There's limited biographical information on this period in your life, and from what I understand, you were the 81st Division of the Marines?

01-00:23:50

Shultz:

Well, I think we were in the 9th Antiaircraft Artillery Battalion; they were assigned to different units as they did things.

01-00:23:57

Burnett:

Okay. And this was island fighting?

01-00:24:01

Shultz:

That's what the Marines did. There were islands that were held by the Japanese, so they had moved down and of course, one of the reasons that I joined the Marines was there was a lot of attractiveness in the way the Marines stood up on Guadalcanal, and they really turned the tide around, and from then on it was pushing the Japanese back, that was the extent they got.

01-00:24:27

Burnett:

Right, right.

01-00:24:28

Shultz:

So I was part of that process.

01-00:24:34

Burnett:

A number of your colleagues, later colleagues, also served in the war, but they served in the Statistical Research Group, for example, at Columbia, and they did important work, often on anti-aircraft mathematics and things like that. You were in active service, in battles. Did that shape your understanding of the work that you were doing subsequently, in economics? That is, you're going from the Great Depression, which is incredible instability, the economy didn't seem to be functioning at all or the way it should be. You go from that to fighting in a world war, where there's radical instability. Order has broken down. And you're very close to that experience, having fought in those islands. Did that shape your understanding of your mission, either as someone who's been in combat, or as someone who's trained and identifies as a Marine, did that follow you through your career?

01-00:26:00

Shultz:

Yes. I consider myself a Marine today. In fact, a few weeks ago, I went down to the Marine Corps parade in Washington. Every Friday night, they have a parade, and they made me the guest of honor. So, I had a chance to be with the Marines and I loved it. I took some grandchildren, indoctrinate them a little bit. But I learned a great deal from this process. I learned, in boot camp, when the sergeant handed me my rifle, he said, "Take good care of this rifle, this is your best friend, and remember one thing; never point this rifle at anybody unless you're willing to pull the trigger." A very profound remark, boot camp wisdom. I told that story to President Reagan, and we were very careful we didn't make empty threats like people do now. It's a bad thing. And there is another side of the coin to that boot camp wisdom, which is be known as a person who does what you say you're going to do. That way, people can deal with you, they trust you. If you don't do what you say you're going to do, how can I deal with you, you're not reliable.

01-00:27:24

Burnett:

Right.

01-00:27:25

Shultz:

So it was a very profound thing my drill sergeant was teaching me, and I remember it.

01-00:27:33

Burnett:

And it's a real brotherhood as well, it seems, something that's followed you throughout your career.

01-00:27:40

Shultz:

Then I remember we had taken this island, and there was an adjacent island where there were natives. The natives made log canoes and grass skirts, and the Marines liked to go over and buy them. So we had a deal where they could go over for two hours, and I observed, and of course the Marines wanted to make deals. The natives were enjoying the process of bargaining and back and forth, so guess what happened to the price of them?

01-00:28:12

Burnett: They went up?

01-00:28:14

Shultz: So that was an interesting lesson. The guy who wants a deal too much is going to get his hat handed to him. We finally told the natives, look, you set a price and the Marines can buy or not buy. But, the earlier experience taught me that if you're negotiating, you can't want a deal too much or you're not going to get a good deal. It's a very good lesson.

When I was Secretary of State, I was occasionally asked by members of Congress, aren't I worried I didn't have a deal with the Soviets yet. I said, "We'll have a deal when we have a good deal, we're not looking for a deal." I remembered those people.

01-00:28:53

Burnett: And also an exposure there, you noticed on this island there's market forces at work, right, it's everywhere you go.

01-00:29:01

Shultz: Right. Well, this was a negotiating process.

01-00:29:06

Burnett: So that was one more set of formative experiences before you've even got to graduate school essentially.

01-00:29:22

Shultz: I also remember vividly, in some early action that we had, I don't remember all the details of it but I know there was a great guy named Patton, a sergeant, that I relied on, and you know, you become very close to people. We had a little action going on and I was looking around for—I ran over to where I thought he might be and I said, "Where the hell is Patton?" *Patton is dead, sir.* I'll never forget that, because the reality of war sinks in, wonderful people got killed, injured, sometimes badly. So if you're ever in a position, as I later was, to give the president some advice on whether to commit our forces, remember Patton. Be careful. Be sure that your people are equipped to achieve what they set out to achieve. So you have a goal and you arrange yourself to achieve that goal, and equip people, so you do everything you can to see that as few people as possible are injured or killed.

01-00:30:35

Burnett: Right, right.

01-00:30:38

Shultz: So I learned a lot in the Marine Corps. Then I learned another thing. I mentioned earlier, this gun-laying computer that we got, it's a feedback mechanism.

01-00:30:54

Burnett: Right.

01-00:30:55

Shultz:

And so I go to MIT and here I am, in a class with Paul Samuelson as the teacher. He's one of the famous economists, and there's only one other student in the class, who was an electrical engineer, who knew a lot about what were called servomechanisms. I remember Paul saying—he asked about our experience and I told him about this gun-laying computer and he said, “Well, think of the economy as just a big computer, it's a big feedback mechanism. Prices and wages and quantities are put in and they interact and outcomes arrive. So, think of your computer as the economy, that's the way the economy works.”

01-00:31:38

Burnett:

Right. An information system.

01-00:31:40

Shultz:

An information system. The corollary of that is if you mess with the information system, you're going to change the economy, maybe in not very desirable ways.

01-00:31:55

Burnett:

Well that was—I mean, that was something up for debate it seemed, at that time, right? That there were some people who understood the economy as these kind of natural forces that can be distorted, and there are others who are claiming that the modern economy is already distorted. It's distorted by the concentration of large social/ economic organizations like corporations and labor unions and so on. There was a debate about how one should manage that from a kind of executive position, so that “planning” is the word of the day almost across the board, across the political spectrum, and across the academic spectrum in terms of what one could do as an economist, thinking about policy.

You come from a somewhat—what I've read and understood is that you've come from a different background. I think you've described yourself as a conservative. When people talked about things like planning, how did that sit with your understanding of the world? How did it sit with your experiences when you went with your father, to the stock market? What was this thing called “planning?” How did you understand that and what was your response to that, given your values and how you grew up?

01-00:33:29

Shultz:

Well, my own thinking was, the government has a role to play in the economy. We've got to provide for defense, we've got to raise the money to do that and so on. I was very interested in labor economics, so there were—we had debates about the unemployment compensation system, which I thought was a good idea. The social security system I thought was a good idea. These are government programs. But when the government takes over and tries to run things, as in the NRA [National Recovery Administration], then I think the wheels come off. So, there's a role for the marketplace, and within the subject

of economics, I was particularly attracted to labor economics, that is employment and unemployment, and things having to do with the labor market and labor unions. There was a lot of strikes at the end of World War II, so people were trying to figure out all the time, why are there all these strikes? And a group came along that said you know, there are a lot of places where unions and managements get along, we ought to try to figure out how that happens. So I thought that was attractive.

There were a series of case studies written entitled, “The Causes of Industrial Peace under Collective Bargaining,” and I wrote, as a young MIT professor, I wrote two of the studies, and I learned from that. I learned, for example, that if people are arguing about principle, you can’t get very far, but if you can convert that to an argument about problems, then people are ready to solve problems.

01-00:35:40
Burnett:

Right.

01-00:35:42
Shultz:

So, as part of any effort to help a negotiation along, move it to problems. And then I observed that the relationships that seem to work well, you look at them some years later and they weren’t working very well, and if you ask why, the reason seemed to be always the same. That is, they started valuing the relationship too much, so rather than fight it out about some grievance, they said, “let’s not rock the boat, we have a good thing going.” And pretty soon, the relationship was not serving the interests of the people in it, so it deteriorated. And so I learned that lesson, and I applied it, when I was Secretary of State, to a few things.

01-00:36:32
Burnett:

Sure, sure. Just going back to the MIT education phase, when you’re a graduate student, between 1945 and 1949, I think that’s about right.

01-00:36:45
Shultz:

Right.

01-00:36:47
Burnett:

And you had a tutorial with Paul Samuelson, and could you describe—you studied industrial economics or labor economics, is that right, at MIT?

01-00:37:03
Shultz:

That’s right.

01-00:37:06
Burnett:

Can you describe the identity of MIT economics at the time? There were different bastions of approaches at different universities.

01-00:37:18
Shultz:

Well first of all, it was a really terrific group of people and very congenial. There was a table at the faculty club that was always the economists’ table.

You could go there and it was fun. It was Paul Samuelson, and there was Bob Solow and Harold Freeman and Charlie Kindleberger and Cary Brown and Bob Bishop, and Charlie Myers and Doug Brown. Oddly, in those days, there were some psychologists in the economics department: Doug McGregor and Irving Knickerbocker. And then—and this could only happen at a place like MIT—we hired, as a member of the faculty, a man named Joe Scanlon, who was Research Director for the United Steelworkers union, and the reason he was hired was it was observed that some company that the steelworkers union had a contract with was about to go bankrupt. And Joe would go in and he would somehow get the workers to take an interest and improve the quality of productivity, and they would do it—and management had to put up with the idea that workers know something and can contribute.

01-00:38:45

Shultz:

But he would turn these companies around. And so, the idea of worker participation in solving production problems. Joe arrived and we said, “well, why can’t we do this with profitable companies?” So there emerged something called the Scanlon Plan, and I went with Joe and I learned a lot by watching him. Among the things you learn is that if you’re managing something, try to arrange it so the people—you’re here, they’re down here—they feel they’re participating and you want them to participate, you want to listen. Listen to people, you can learn something.

01-00:39:27

Burnett:

Right, absolutely. And that’s an early version of what would—you know, other people would develop—[William] Edwards Deming developed Total Quality Management, or its ancestor of that. So this idea of worker participation and that every node in the organization has a piece to contribute, is fairly new at that time.

01-00:39:50

Shultz:

It’s easy to say and it’s harder to do, because there’s also this system of authority. I’m in charge, I’m the foreman, I’m in charge, or I’m this or that. So they have a way of thinking about authority.

01-00:40:07

Burnett:

Right, right. And I guess also, that tricky social piece of it is the adversarial relationship between workers and management, which can make those kinds of collaborative arrangements difficult.

01-00:40:21

Shultz:

Well, you wanted to get away from the adversarial relationship and say we’re all part of the process of producing this, whatever it is we’re producing, and the better it is and the cheaper it is, the more prosperous we’re going to be. In the Scanlon plan, there was a formula for sharing the results of what was produced, but there are all sorts of versions of that.

01-00:40:46

Burnett:

In the sixties, you wrote a piece about the fading of labor economics and industrial relations, which was going through a new phase, or was having to adapt to changes in the academic marketplace, I suppose, and you reflected on the earlier phase of industrial relations and you described it as a kind of preaching stage, where there were different kinds of orientations. Some people had a kind of ideological axe to grind. Is that from an earlier period or is that something that you'd encountered at MIT? Did you encounter people who were less interested, say, in the problem-solving side of what you're interested in, and more interested in the principle of things?

01-00:41:44

Shultz:

I thought the MIT experience was first class in every way. The economics was first class and the people were wonderful, and the people in the industrial relations sphere, Doug Brown and Charlie Myers, were the two professors. Then these psychologists, you learn a lot from them. There was no other economics department that had anything like this, and bringing in this guy Joe Scanlon, he was a jewel.

01-00:42:15

Burnett:

You mentioned, in that same article, that industrial relations is inherently interdisciplinary, that it has these different elements drawing from, as you said, there might be a bit of psychology.

01-00:42:34

Shultz:

Absolutely, it's obvious. Life is interdisciplinary. When you get into any position in government, say, or business, there are economic dimensions of what comes at you, but there are many other dimensions too, that are problems, and you have to grapple with them as problems.

01-00:42:54

Burnett:

Right, right, [problems] that unfold in time, so that there are new developments that change the equation in a situation, absolutely. When I was reading about industrial relations in your career, I was thinking about... [interruption]

(pause in recording)

01-00:43:17

Burnett:

This is Paul Burnett, interviewing George P. Shultz for the Economists Life Stories Project, in the Science, Medicine, and Technology series. We're here at the Hoover Institution and it's September 1st. So, Mr. Shultz, we were talking last time about your beginning at MIT, and some of the research you were doing. We talked a little bit about industrial relations as an area of scholarship. I'm wondering if you could talk a bit more about the nature of this interdisciplinary discipline in the late 1940s. What was at stake, what were the problems that people were talking about, and what drew you to your dissertation project?

01-00:44:17

Shultz:

Well I thought for me, MIT was ideal, because it was first class economics and I appreciated that. Then we had the field of labor economics and industrial relations, and I talked about Joe Scanlon before. But in a way, what this amounted to was a link between the university and the world as it operated. So, it was interdisciplinary but it was—you could see problems and you could see something being done about them. So, all of that was in the atmosphere at MIT, and if you walked through the halls of the Institute, you see machines and so forth, it's very real. MIT, as an institution, is dedicated to being part of improving life in the United States and elsewhere. So that atmosphere was very important for me.

Then of course, I became acquainted with other people in the field of labor economics, and particularly, I had a great friend named Al Rees, who was at the University of Chicago. Al was at the Council of Economic Advisors, and he sort of recruited me, and I got to know Arthur Burns, who was the chairman, to be in what was called the labor slot there. In other words, they had people that came for a year, from universities, and they specialized in some subject, mine was labor economics. There was Joe Pechman there, who was macroeconomics, and there were people from various fields. So that was fun, and I learned a lot about the government statistics and the process of gathering them, because Arthur Burns was interested in that subject. I learned about how you gathered the statistics about employment and unemployment, and the discrepancies, and issues and problems. It was very educational from that standpoint. Then, I was part of an economics team that had the diverse subjects covered by capable people, and I got to know some of them very well, particularly Joe Pechman.

01-00:46:50

Burnett:

Can we come back to that, because that gets—it's a little bit later, it's 1955, I think, that you join the Council of Economic Advisors.

01-00:47:01

Shultz:

Yes, that's right.

01-00:47:05

Burnett:

I appreciate your description of MIT, and I wonder if you could talk about the people that you knew at MIT in the 1940s, when you were a graduate student, and how you came upon the Brockton Shoe problem, as you described it in your dissertation. Was that something that was suggested to you? Did you think about that as a way to answer a set of questions?

01-00:47:45

Shultz:

When I set about my dissertation, it was going to be in the field of labor economics, and in particular, the subject of wage determination, I was interested in. So I decided to take an industry and apply basic ideas to that industry, and the industry I chose was the men's shoe industry. From an economist's point of view it's a good industry, because there's demand and

supply in small units, and you can kind of see the economy move. So, I studied the whole industry, but then I had as a case study, it was handy at MIT, Brockton, Massachusetts, which then was a center for the production of shoes, high quality shoes. So I made a point of spending quite a lot of time there and it was one of those educational experiences where on the one hand, you gather data and it's part of what you do. But on the other hand, you learn something. What I observed in the statistics was that all through the Depression, the wage rate, the piece rate on certain things, they didn't change. And so you say, "Gee, in the Depression, you'd think they'd go down." And I kept coming back to this in my interviews with people in Brockton, and they kept telling me about this great system and I didn't get it for a while. Finally, I got it, that is, they created a system where the rate that you were paid depended on the price of the shoe that you were working on, even though what you did might be pretty much the same. And in the Depression, the price of shoes that people bought went down, so wages went down as you would expect.

01-00:49:54
Burnett:

Right.

01-00:49:55
Shultz:

So, sitting in my office in Cambridge, I was trying to explain why wages didn't go down, and talking to people in Brockton, I learned that they had a way of bringing that about that wasn't visible, because they didn't want to cut their wages, and then everybody else would follow. They didn't get any benefit from that. So, once again, I learned that people are out there are smart and they figure out ways to do things. In this case it was effective, because they did reduce wages, but they didn't do it in a way that caused everybody else in the industry to follow them. So it was interesting from that standpoint.

01-00:50:37
Burnett:

Right. And so in industrial relations research at this time, you're working with statistics, long statistical series, you're doing quantitative analysis for sure, but there's also, it sounds a bit like anthropology, like you're going into the field—or sociology—going into the field and you're studying work culture as an observer. Is that fair?

01-00:51:05
Shultz:

It wasn't working culture so much as it was trying to figure out what was going on, and it isn't easy sometimes. I also was affected by my bachelor's thesis at Princeton. In that case, I studied the agricultural program of the TVA [Tennessee Valley Authority]. The TVA was very much in the news and agriculture, once again, was something economists like, because you've got quantities and prices and so forth out there, that you can play around with. In this case, I had a scholarship from the Social Science Research Council, for the summer, and so I had some money to go to Washington and collect statistics, and go to Knoxville, where the TVA headquarters was, and collect statistics. And then, for some reason, I went for two weeks, and lived with a hillbilly family, just a man and his wife, in a demonstration area, where the

TVA would give them fertilizer, and they would get results and they would report them and so on. So this was a demonstration area and the young family was one of the farms, and I lived with them.

So, first of all, I learned something about how you interview people. With them, you sit on the front porch and you rock and you don't say anything. You wait for them to start the conversation, and then you become part of the conversation and they become fond of you, they like you and they trust you. Trust is always the coin of the realm. Then I remember they asked me to help them fill out the forms they had to fill out for the government to get more fertilizer. They knew what the government wanted to hear and they were determined that what they would report would be factually accurate, but on the other hand, everything could get slanted a little in order to please the government and get what they wanted.

So I go back to Princeton and I've got all these statistics and all of a sudden it's dawning on me, the statistics are a compilation of the forms that I helped them fill out, so they have a bias in them. Ever since then, whenever I see a number I say, "where did it come from?" It was a very educational experience.

01-00:53:42

Burnett:

Absolutely, immediate in that sense, for sure, for sure. So, that is a dilemma, doing that kind of social-science research, right? How did that translate to the Brockton case? Did that change how you interviewed people, when you asked them?

01-00:54:04

Shultz:

No. It just is, you learn as you go along. You learn to interview people, sometimes by being quiet and listening carefully, and sometimes they're trying to answer your question and you don't realize that—because the way they're looking at your question is different from the way you looked at it, so you have to listen carefully. Listening is an important attribute, I think, knowing how to listen.

01-00:54:38

Burnett:

Absolutely. And that's something you've carried with you through your career, in all of its different domains. So, the birds-eye view history of industrial relations is that it's part of institutional economics. It started—the first institute is, I think at Wisconsin, John R. Commons starts it, and unlike laissez-faire or neoclassical economics, it holds that labor markets are not perfectly competitive and employers tend to have more power than workers and therefore, conflict is the basis of labor relations. Something else seems to be going on in the research that surrounds you at MIT during this period. There's this institution called the National Planning Association, which starts in 1934, and it's a kind of problem-oriented institution like you've described in other situations, and they end up sponsoring this pamphlet series on various problems of the day. At what point did you become involved in that? Is that later, when you become a professor?

01-00:56:12
Shultz:

They sponsored a series called, “The Causes of Industrial Peace under Collective Bargaining.” I wound up writing two of the case studies. I think there were about fifteen of them, something like that, and as I said earlier, that was again, I learned a lot from that. I learned that as long as people are arguing about principles, you don’t get anywhere, but if you can move that into an argument about problems, then you can solve problems.

01-00:56:46
Burnett:

And one of the mission statements, I suppose, of that project, was in contrast to what was in the news, I mean, 1946 was the “year of the strike” and five million people went out. There is a lot of study of labor conflict and the emphasis was on conflict. The mission of these studies, by contrast, was to look at collaboration, to explore contrasting cases. How do management and labor work things out in various cases? So rather than the rule being this kind of conflict model, there were all kinds of different collaborations going on. There were two cases that you were involved in researching. One was the Nashua Gumme and Paper Company. I wonder if you can talk a little bit about those studies and what you took away from them. Did you learn—what was different about your perspective on labor relations after you’d done those studies?

01-00:58:18
Shultz:

I learned that if you dig in to how it is that people seem to get along, you learn that they stopped arguing about principles and started identifying problems and then solving problems. That was very apparent. Then I learned, watching them later on, that if you start valuing that relationship too much, as distinct from solving problems, the relationship goes sour. So, you have to keep facing up to problems and solving them.

The case you didn’t mention, the second was, the Lapointe Machine Tool, and that was the Scanlon Plan company, so that gave me a little extra insight into the Scanlon Plan operation.

01-00:59:15
Burnett:

It sounded like it produced great results.

01-00:59:21
Shultz:

It did produce great results. The workers and the management worked together as a team very effectively as it got going.

01-00:59:36
Burnett:

And in the other case, and I think in the Brockton case, you looked at these kind of microcontexts. In certain regions, you could have, in areas where there is higher unemployment, the local employment conditions could affect how workers negotiated with management. So, it seemed like there was a kind of dominant narrative in economics, that bargaining is about wages and it’s not necessarily connected to the unemployment conditions.

01-01:00:26

Shultz:

Well, there is something in economics called demand and there's something called supply and where demand and supply intersect, you get the price. If demand falls off, the demand curve goes down, it shifts, and the price is going to go down. And where you have organizations involved, they have to negotiate that, but nevertheless, the pressures from the market are there.

01-01:00:55

Burnett:

Were there economists who were arguing that that was not the case, because there was a kind of, I guess a corporate-administrated environment, if you will, that wage bargaining was not as affected by local employment considerations?

01-01:01:22

Shultz:

I think that anyone would say it obviously was, but if you had a union in those days, you had somebody who could speak up for the worker side of the issues. But as you studied these things, you could see that it wasn't so much about wages necessarily. There was, what emerged—I think Sumner Slichter coined the phrase—a system of industrial jurisprudence. In other words, you had a way, if you had a grievance, of getting adjudication of the grievance. So, that tended to improve the general atmosphere and working arrangements. So it wasn't just economics involved, it was having a system for adjudicating problems.

01-01:02:14

Burnett:

And I think another major message of those pamphlets and that research overall is that there was more labor market flexibility than models had suggested or that other economists or researchers had suggested, so that rather than bargaining for a wage increase, the workers might understand that they would bargain for better job security in exchange for a wage reduction. They might understand that they're in a competitive environment and that the workers were conscious of this, and that they would speak with management and they would—if they had trust, as you said—if they had trust and open communication, they could negotiate in a competitive environment and negotiate over job security as opposed to wages, for example. That seemed to be one of the stories that you were exploring.

01-01:03:07

Shultz:

Oh, I don't know about that. In any relationship where you have somebody who is managing and somebody who is being, to a certain extent, managed, you feel your way. I'm here at Stanford University and I say to the man who's managing the Hoover Institution that his job is to see to it that I can do whatever I want. So I spend my time doing things I want to do here and when they're things that are supportive of the institution that I'm asked to do, I do them. Sometimes we get together as a group and we'll do something or other, but it's done because we want to.

01-01:04:07

Burnett:

Right. So in place of an adversarial model, these are relationships between labor and management.

01-01:04:21

Shultz:

Well, in a sense, a good setup is where you are trying to achieve something and everybody can see more or less what it is, and so everybody does their part in achieving it. Sometimes, the thing you're trying to achieve is some physical thing that's going to be produced by a factory, sometimes it's contributions to thought on a subject. That's the way most academic institutions operate, that's what Hoover is about. That's the kind of environment that I like. Sometimes in government, you have issues that you're trying to deal with as public issues, and if you do it at all you realize that having good ideas is only the beginning. You have to learn how to make them effective, how to get something accomplished.

01-01:05:24

Burnett:

When you started the NPA project, were you approached by someone or how did it work?

01-01:05:41

Shultz:

I don't know that I remember with great clarity, but I know that Charlie Myers and Doug Brown were part of the circle of people that would get these things going. I think the first one you mentioned, the Nashua, I did jointly with Charlie Myers, as I'm recalling. Anyway, they were part of the establishment, you might say, in labor economics, and I benefited from that as one of their pupils.

01-01:06:12

Burnett:

And so you completed your dissertation in 1949, which was the Brockton shoe study.

01-01:06:21

Shultz:

Well, it was about the men's shoe industry and Brockton was a case study within it.

01-01:06:27

Burnett:

And you moved from being a graduate student to faculty. Were you asked to join the faculty?

01-01:06:40

Shultz:

Yes, I was asked to join the faculty, but it was a process. That is, when I was working on my dissertation earlier, I taught classes, and at that point, Paul Samuelson's famous textbook was in mimeograph form and we used it. One of the things we did, and Paul worked hard to make it understandable and readable, and after class, we'd come and give him a little report on, here's a passage that seemed to be puzzling to people, and so he would work on it. It was kind of fun, working with Paul on that, but I wasn't suddenly from student to faculty. You were involved in a teaching process and working process.

01-01:07:26

Burnett:

Right, right. And a position came open and you applied for it.

01-01:07:33

Shultz:

Well, they invited me to be an assistant professor. It wasn't like I was applying for a position.

01-01:07:41

Burnett:

Those were different times I suppose, on the academic job market. One of the things I'd like to cover before we got any further forward is to talk a little bit about your personal life. When are you married and can you talk a little bit about your spouse?

01-01:08:20

Shultz:

During the war, as a Marine, I went from one place, where we had taken an island, and we came back to Kawaii for R&R and were reforming for the next operation. Some of us got together, we were on Kawaii, and so this is a big island. If it's a big island, there must be a hospital, if there's a hospital, there must be nurses, let's go find the hospital. So we found the hospital and there were nurses there and one of them was a very attractive lady. We got together and we had a nice relationship and kept in touch. She went off to the Philippines with [Douglas] MacArthur and I went to Palau, but when we both came back, we got together again and got married, and it was in 1946, I believe, and I was a student at MIT.

01-01:09:22

Burnett:

So you kept in touch through all of that turmoil.

01-01:09:26

Shultz:

Yeah, we wrote back and forth.

01-01:09:38

Burnett:

Wow, wow. And so you're married and for the record, can we have her name?

01-01:09:37

Shultz:

Helena O'Brien was her name. Everybody called her "Obie."

01-01:09:43

Burnett:

Obie, okay. So you're married to Obie and you attend graduate school at MIT, and it's a wonderful experience.

01-01:09:54

Shultz:

MIT set up a little veterans housing project that was right practically on the campus, and we had one of the little houses there, and of course all the neighbors were also veterans studying at MIT. So it was a nice little neighborhood.

01-01:10:12

Burnett:

It was the GI-Bill neighborhood, I suppose. One of the things that's discussed, I'm not quite sure where to fit this in the timeline, but in one of the articles in the 1950s, it mentions that you acted as an arbitrator in industrial disputes. Is that later, that that happens?

01-01:10:35

Shultz:

Yes. I did some mediation and arbitration work as part of the—there's an organization, the National Academy of Arbitrators, and the senior people in the labor economics field, like Charlie Myers and Doug Brown and Clark Kerr, Fred Harbison, John Dunlop, during World War II, they were part of the effort to deal with labor-management problems, and that morphed into arbitrating, and so they did arbitration work and I got invited to do some, so I did a little.

01-01:11:14

Burnett:

And that started while you were at MIT?

01-01:11:15

Shultz:

Yes.

01-01:11:17

Burnett:

Okay. And the same principles apply, that you've talked about before, about listening.

01-01:11:26

Shultz:

Well, your job as an arbitrator is to interpret the contract, and one of the temptations sometimes is you have a case and here's a contract, and you apply the contract to the case and it doesn't seem right, and so as an arbitrator, you're tempted to change it. That's not your job. Your job is to point out, here's what the contract holds, and if you want to change the contract, that's the job of the parties, not the arbitrator.

01-01:11:58

Burnett:

So, once you become an assistant professor, you kind of explode onto the scene, because you've got the *Pressures on Wage Decisions* published as a book, and then you co-author a book, *Dynamics of a Labor Market*, with Charles Myers, who's an associate professor, I think, at that time, at MIT. We've already talked about some of the basic conclusions that come out of that research, and the edited volume that starts, the first edition, I guess, is, *Causes of Industrial Peace under Collective Bargaining*, that's 1949. So there's a lot of activity, where you've written two studies and you've written one book and co-authored another. So during this period, between 1949 and 1955, you're also active in that you, yourself, kind of contribute to—I don't know what to call it. Is it a reader or a textbook?

01-01:13:13

Shultz:

We developed a book that would help us in teaching, *Labor Problems: Cases and Readings*, I think it was called.

01-01:13:26

Burnett:

Right.

01-01:13:27

Shultz:

Jack Coleman and I did that together, and we were teaching MIT students and we found cases where there was something that they could get a hold of and

like, and then we had some readings that they could do and learn from. For example, MIT engineers are continually inventing things and changing things, and they think that if you've got something better and you change it, everybody ought to be happy. That's not the way the world works. So we had a wonderful case in there on the introduction of continuous-aim firing into the United States Navy. A naval ship rocks, so the way they fired, there was a certain point of the rocking motion where you fired, and somebody invented a way to take out of play those rockings, so they could fire continuously. It was clearly a *very* superior way of going about it, and this was proven. There was an admiral who was pushing it, and he almost got court-martialed, and the Navy resisted the change until the war broke out, and then they immediately adopted it. So you say to the MIT students, well, change is something hard to do. You have to think carefully about how you bring it about, and there's resistance to change. Why is there resistance? Well, people have their way of doing things and it's not going to be there anymore, and so you've got to start thinking about stuff like that. Anyway, that was an interesting book to put together and it worked well.

01-01:15:20

Burnett:

Yeah. The students were able to see, with concrete cases, some basic lessons about adaptations to technological change. It also gives, there's some snippets of the history of the labor movement, from the Haymarket bombing in 1886, all the way up.

01-01:15:45

Shultz:

Well, it was part of a course on labor economics.

01-01:15:49

Burnett:

And as a young, new professor, I imagine teaching was a fairly heavy responsibility, while you're also doing all of this publishing as well. Were you responsible for the introductory courses, the large courses?

01-01:16:07

Shultz:

Well, I don't remember all this in detail but yes, Jack Coleman and I worked on these, and there were other people; Jim Baldwin. We had a good group, able people, and we had a good time with each other.

01-01:16:28

Burnett:

So, the MIT group, this is where you went to graduate school, and it's where you're now a professor. So this is a tight group of scholars with whom you interact and with whom you work, but I'm sure that you're also meeting folks at other universities, through conferences and special projects. Can you talk about some of the collaborations and friendships that you formed with people at other institutions. You mentioned Clark Kerr was involved.

01-01:16:59

Shultz:

Clark Kerr was at Berkeley, but he was a major figure in this field, so I got to know him, and I got to know the people at Princeton, at the University of Chicago. I mentioned earlier, Al Rees became a very close friend, and so I

succeeded him at the President's Council of Economic Advisors, and so I became part. There was an association, the Industrial Relations Research Association, and eventually, I became the chairman of it or the president, or something or other.

01-01:17:41

Burnett:

And so you were meeting all of the major figures in the field.

01-01:17:44

Shultz:

Yeah, I would meet people. Clark Kerr was a fantastic guy, and he and I were co-chairmen of something called the Armour Automation Fund, that again, was a great learning experience in many ways for me.

01-01:18:02

Burnett:

Well, perhaps we could talk a little bit about the work at the Council of Economic Advisors. Your time there is '55 to '57?

01-01:18:14

Shultz:

Fifty-six.

01-01:18:15

Burnett:

Fifty-six, okay.

01-01:18:17

Shultz:

It's a one-year.

01-01:18:18

Burnett:

It's one year, so you took a leave.

01-01:18:20

Shultz:

The academic year.

01-01:18:21

Burnett:

Right. And you were there under Arthur Burns.

01-01:18:24

Shultz:

Arthur Burns was the chairman.

01-01:18:26

Burnett:

Can you talk a little bit about Arthur Burns and what he was facing, what he was up against in that time, at the Council of Economic Advisors, and what you learned from him when you worked there.

01-01:18:43

Shultz:

Arthur was both a very good economist and a very strong personality. President Eisenhower had been president of Columbia University, and that's where he first knew Arthur, I believe. When he became president, the Council of Economic Advisors was in bad repute, because the head of it, under the Truman Administration, turned it into a kind of political operation, so there wasn't even any money, I don't think, at first. So Arthur took the job and he was determined to professionalize it to be what it was supposed to be;

professional economists giving advice to the president. So he was very unusual. He wouldn't give a speech. He said, "I'm not the economic advisor to the American people, I'm the economic advisor to the president. I say what I think to the president. There will be some things that I don't agree with. If I'm public about them, people don't accept my advice anymore, so I keep my peace." And the same when he testified before the Congress. He would testify, we need a new Marchant machine or a new statistician, but he would never discuss the economy, because he said, "I'm a professional economist and this is how I behave."

01-01:20:17

Burnett: Right.

01-01:20:18

Shultz: So he brought the stature of the council back up to where it became a real factor, and I got to know him well. If I got assigned to do a memo on something or other, I remember, I would try to turn it in about four-thirty in the afternoon, and then Arthur, about five o'clock, would have me come up to talk about it, and then we'd talk. I got to know him and I learned a lot from him.

01-01:20:49

Burnett: Not just about the nuts-and-bolts economics, but other things as well.

01-01:20:52

Shultz: About statistics and policy, and how it got formed and what the frustrations were. He talked about his role as a professional economist advising the government. So, it was a great period for me.

01-01:21:09

Burnett: It sounds almost like he was mentoring you in that sense.

01-01:21:12

Shultz: Well, I made him mentor me, because I created situations where we sat around and talked.

01-01:21:18

Burnett: The importance of the four-thirty, getting it in at four-thirty, so that you could have those conversations at closing time, as it were. And you met other folks there as well, while you were there?

01-01:21:33

Shultz: Yes, I did. I particularly remember Joe Pechman, because Joe, whenever he didn't have anything else to do, he was calculating; if you eliminated this preference or that preference in the tax code, how much could you reduce marginal rates? I remembered that work, and in the Reagan period, I was the chairman of Ronald Reagan's Economic Advisory Panel, during the primaries and during the campaign, and then for a while, in the first part of his presidency. Then I became Secretary of State, and I remember coming back once from a trip in Europe, and I gave him my report, and he said, "You used

to give me advice on economic things, and if you have any ideas, I would be glad to have them.” And I had to be careful I didn’t impinge on somebody else’s territory. So I thought about it and I checked with Joe. I talked to Milton Friedman out here, and I went down to Palm Springs, where the Annenbergs had a New Years Eve party every year, a wonderful party, and their house sits right on a golf course they built. So the tradition emerged that President Reagan and I always had a golf game on the 31st. And so after the golf game, I said to him, “Mister President, do you have a little extra time, I’ve got an idea for you.” So we went into a little back place and I said, “Well here’s a free lunch. If you can reduce the preferences, you can reduce the marginal rate and they’ll score it on a static basis and the economy will respond and you’ll get revenue and the economy will be better.” So, he basically said—we talked about it for a half an hour or so and he said, “It’s a good idea. You’re going back to Washington before I am, why don’t you tell Don Regan, who is Secretary of Treasury, I’d like to get him going on this.” So I didn’t want to step on his territory, so I said, “Don, I’m here as the messenger. The President asked me to ask you to work on this and I’m not a part of it, but if there’s ever a time there’s a Cabinet meeting, let me know and I’ll be supportive.” So he went to work on it and that’s how the 1986 Tax Act got started.

01-01:24:16

Burnett:

Wow. So it was from Joe Pechman’s musings and...?

01-01:24:19

Shultz:

Well for me, it was remembering Joe Pechman, and Joe was still around and he was a Democrat, and the Democrats were very interested in what he had to say. So Joe made an impact.

01-01:24:32

Burnett:

Yeah, absolutely, absolutely. And you recall that you were impressed by that research that he was doing.

01-01:24:40

Shultz:

And Joe, he was a terrific guy, he was fun, he’s a guy you enjoyed. I mean, he was a good economist when he talked economics, but he was also fun to be around.

01-01:24:54

Burnett:

That’s an important attribute that people have to have. One of the things that reminded me, from reading your other writings, is that Arthur Burns seemed to—one of the key pieces of his reformation of the CEA was to really respect a kind of chain of command, that he’s there to be as a professional economist who advises the president. Is that something that resonated with you?

01-01:25:30

Shultz:

Yes. I thought this is the way to do it. I considered myself an economist, and so my job was to give economic advice, not political advice.

01-01:25:41

Burnett:

Right, right. That's tough though, it seems, because—is there a hard and fast line between political advice and economic advice?

01-01:25:55

Shultz:

Well, there are certain realities that economists know something about, and you want to remind people of them.

01-01:26:02

Burnett:

Right. So there's a certain basic, irrespective of what you think ought to happen, there's a sense that—

01-01:26:10

Shultz:

Well, you can think of policies that you think are better and present why they're better.

01-01:26:23

Burnett:

So, with that year, you took away perhaps a taste for Washington, or what did you think after a year, upon reflection?

01-01:26:36

Shultz:

Well, I enjoyed the time and I learned a lot. I think I go back to the atmosphere at Princeton. They had a slogan; "Princeton, in the nation's service." And so the idea of service is something. I know, as I thought about what I wanted to do in life. Well, on the one hand, I want to be an economist, I want to teach and do research at a decent university, and if I have an opportunity to serve in the government, I'd like to do that. That was sort of my—as I thought of my career, that's what I wanted to do.

01-01:27:11

Burnett:

Right, right. I don't know if this is something. It comes out, in '59, it's the second edition of *Labor Problems: Cases and Readings*, and I think you're probably already at Chicago, well into being in Chicago, but you were probably involved in the second edition, because I imagine it got revised on an ongoing basis.

01-01:27:43

Shultz:

Yeah.

01-01:27:44

Burnett:

It's different, it's *really* different from the first edition. Half the readings have been swapped out and a lot of it is on what's happened in the 1950s, in labor relations. In your earlier writings, in your case studies, you're looking at labor relations at the end of the 1940s, and there had been a kind of recession in there. But things seem to have changed a little bit. Did your thinking about labor relations change much during the 1950s, from the early fifties to the late fifties, as a result of what was going on in the national scene?

01-01:28:38

Shultz:

I think you're not very much if you don't learn as you go along, and as the atmosphere shifts, you try to learn from that. What does it mean? There was a general shift taking place that you could see.

01-01:29:05

Burnett:

One of the readings, I think one of the essays, an author was writing about, there were scandals, there were corruption scandals, with the large unions, and there were concerns really being talked about in terms of cost-push inflation, and a question of whether general wage rates are driving and overheating the economy.

01-01:29:47

Shultz:

At Chicago, there were three things that I did professionally. One was I wrote a book with Al Rees, on the Chicago labor market. This was the first study of a big labor market, so Al and I did that. Then, I was in a sense the staff organizer for a look at labor policy, and the principals were Clark Kerr, and I guess Doug Brown and Fred Harbison, I don't remember, but anyway, that was an interesting exercise.

Then, I was interested in the impact of computers on what was going on, and with a colleague named Tom Whisler, we organized a conference on the subject and published a book entitled, *Management, Organization, and the Computer*, and it was designed to be a wakeup call to management. Using this device to do payroll and personnel records, but watch out, it's going to change the way you manage. It was very prophetic, but nobody paid any attention. It was a good book.

Then, I was worried about the emergence of guidelines to guide wage and price changes. It seemed to me, it was a kind of precursor to the potential of wage and price controls. So with another colleague at Chicago named Robert Aliber, I organized a conference on the subject and we published a book entitled, *Guidelines*. So that subject was very much on my mind as I went into the government to be Secretary of Labor.

01-01:31:48

Burnett:

And some of those issues, I guess were already apparent in the 1950s, when you were making your move to the University of Chicago. Can we talk a little bit about the shift from MIT to the University of Chicago, and how that transition came about?

01-01:32:17

Shultz:

Well, I was invited by Al Rees, and then the Dean [of the Graduate School of Business] at Chicago, his name was Allen Wallis, to come there. I had been offered jobs at quite a few universities and I stayed at MIT, but I thought well, Chicago is a top place, I knew quite a few people, and maybe it's time. I've been a graduate student here and I've been on the faculty, maybe I should get myself in another environment, just from the standpoint of my intellectual

breadth. So, they invited me to be a professor there, so I accepted that, and it turned out to be a very good move for me. Chicago is an unusual atmosphere. It's the most intense intellectual turmoil anywhere. It's high-power discussion everywhere and people challenge you on everything. It's really exciting.

01-01:32:26

Burnett:

Had you heard about Chicago before you went there? Was Albert Rees telling you what it was like or was he trying to recruit you?

01-01:33:36

Shultz:

Al Rees was a good friend and he was a principal recruiter, but then you hear—I heard about Milton Friedman, of course he was a major figure in economics. I remember he came to MIT for a seminar, one of the evening seminar type things, and he and Paul were the two magic people in the world of economics, Paul Samuelson. The evening consisted of a back and forth between the two of them, and one of them could say one word and the other one would know where they're going and say another word, and it was back and forth, and you got an evening where you came away saying, I just watched two of the most brilliant people I ever heard of talk. On the other hand, I was interested in hearing what Milton Friedman had to say, and he didn't get much of a chance to do that. So when I went to Chicago, of course I had chances to do that, and as it turned out, we recruited George Stigler, who was a very close friend of Milton's, who was in the Business School, and his office, when I was dean, was right across the hall from mine, and George and I played golf together a lot. So I got to know Milton quite a lot, as a result of that association. He's a very wonderful person and helpful, I mean he'd take the time to argue with you and talk to you about things, and he was also very practical.

01-01:35:15

Burnett:

Yeah, yeah. I think he's on record as saying, about MIT, and perhaps he was just talking about Paul Samuelson, that it was too theoretical or too model-oriented. Did you notice a difference in terms of the content of the research that was going on at Chicago, as opposed to at MIT, with respect to your area? I'm not asking you to talk generally, but in terms of labor research, because labor was becoming a really important area at Chicago, right at the moment that you transition over.

01-01:36:05

Shultz:

It was and it was more narrowly focused on economics as distinct from the Joe Scanlon psychologist interests. So I brought to Chicago a little of that point of view, which they welcomed. At Chicago—this was true at MIT too—the lines between departments didn't mean much. At Chicago, there were people interested in labor economics and it didn't matter where they were, they were in the law school or the business school or the economics department or wherever. We were a little community and we talked and argued and did work together.

[End of Interview]

Interview #2 September 3, 2015

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02-00:00:05

Burnett: This is Paul Burnett, interviewing George P. Shultz, for the Economists Life Stories Project, in the Science, Medicine, and Technology series. We're here today at the Hoover Institution, and this is session two, September 3rd, 2015. So, Mr. Shultz, last time we were talking about your beginning at the University of Chicago, in the Graduate School of Business there. You just started to talk about it and I'm wondering if we could begin by telling me a little bit about what you knew about the University of Chicago Economics Department and the Graduate School of Business, before you got there. What was the reputation of those institutions?

02-00:00:56

Shultz The reputation of Chicago was very high in academic circles. The economics department was well-known, with stars like Ted Schultz and Milton Friedman and George—well, George Stigler wasn't there yet. And my friends, Al Rees, Gregg Lewis, they were superstars there. The business school was led by a man named Allen Wallis, who was a great statistician, a real intellect, and he brought a point of view to business education that was interesting and different.

02-00:01:34

Burnett: Can you describe a little bit more, what that point of view was and how it was different?

02-00:01:38

Shultz: There was a big sort of debate in business education at that time. The Harvard Business School was best known, and at Harvard, they believed in the case method of teaching. At Chicago, there was a different idea. We said, all your life you're going to be dealing with cases, and what you should get at the university is learning how to learn from what you observe in your experiences. And so there was an emphasis on social sciences, on statistics, on economics, on psychology. We had an anthropologist. There were some case things at the end but still, there was a sharp difference of opinion between Harvard and Chicago, so there were poles, and we thought we were right. We enjoyed what we were doing.

Chicago had something else that was interesting, that I hadn't appreciated until I got there. We had our campus program, where students came out of college to get their MBAs, but then we had what we called a downtown program. We had a building in downtown Chicago, and people came part-time, at night, there were people who were working. So it was a different kind of an audience and it was very educational, to teach them and see the difference between people who had experience and people who really hadn't. These days, I think in all of the good business schools, they don't take anybody out of the

college any more. They want them to have worked somewhere. So the Chicago downtown program was kind of a precursor of that insight, which was a good insight.

02-00:03:37

Burnett:

For working professionals, it was kind of an executive MBA before its time.

02-00:03:44

Shultz:

It could be. [both chuckle] Chicago will claim that.

02-00:03:49

Burnett:

Sure. I understand that the economics department, when I was doing my research on Ted Schultz, they were training economists in the meat packers, and short courses, and this is in the twenties. I didn't know that they had that side of them way back when. I don't know how long that continued, but it may have just been dropped during the war.

As far as the Graduate School of Business, I understand that W. Allen Wallis wanted to change the graduate school in the mid-1950s. The story is that he had a plan for its modernization, and I think the phrase was, in one of the articles I read, to improve its "academic respectability." When you were approached and when you learned about the position and had discussions about it and were being recruited, what was the conversation about the near-term future of the Graduate School of Business? What did they want to do with it?

02-00:05:17

Shultz:

Well first of all, the idea that Allen Wallis and Jim Lorie, who was the Associate Dean, had—I already talked about. So, from the standpoint of an academic person that was an attractive place, and Wallis was a powerful intellect and an appealing guy. So, there was that side of it, and then there was kind of the Chicago in general reputation as a very stimulating place, and I did know some of the people in economics, who were in my field.

02-00:05:55

Burnett:

Could you talk a little bit about generally, over the time that you were there, the relations between the Graduate School of Business, the economics department, and then I guess also the law school, so that when people talk about the Chicago school, there are these institutions that are intermingled a little bit. The faculty are working together on projects. Can you talk about the evolution of that? Was that already well in place by the time you started there?

02-00:06:31

Shultz:

Oh, that was in place when I got there, and there were many seminars that people from all over went to, so there was in a sense, an economics community, or people interested in economic policy and such things.

02-00:06:51

Burnett:

One of the things people have written about is the famed, or notorious, workshop system, in the economics department. Can you talk a little bit about that, about your experience with it?

02-00:07:07

Shultz:

Well, there were places where people who were interested in an area of subject matter came together, and presentations were made and there was a critique. The most famous was Milton's, Milton Friedman's money workshop, but it's a very important idea. You have people working as individuals, on their own individual work, but then there is a place where it is subjected to criticism and elaboration, and so it improves your product but it also provides a stimulating atmosphere in which to work. I might say that since I've been back here at the Hoover Institution, we've adopted it, and here they're called taskforces. But anyway, the basic idea is people who are interested in a similar thing get together periodically and hear somebody comment or present a paper or do something or other.

02-00:08:14

Burnett:

So the taskforce institution or idea here, that's derived in part from the Chicago workshop model?

02-00:08:26

Shultz:

I don't know that there was some great derivative, but the idea is basically the same. It's interesting, that Milton Friedman, who spent a long time here, when he left, after he left Chicago, he opposed the taskforces, and I said, "Milton, this is just your money workshop." But he was afraid somebody was going to tell him that he had to go to this or that, and I said, "Nobody tells you to do anything, you do what you want."

02-00:08:54

Burnett:

So he felt he had done his service to the larger community. He wanted to sort of control his time a bit better.

02-00:09:02

Shultz:

No, Milton was a man immensely generous with his time and was always willing to straighten you out and argue with you. A wonderful man.

02-00:09:15

Burnett:

When did you first meet him?

02-00:09:17

Shultz:

When did I first meet Milton? Well, when I went to Chicago.

02-00:09:21

Burnett:

Okay, that was the first time.

02-00:09:22

Shultz:

I guess I had seen him. He came and gave a seminar at MIT on one occasion, and it was a—I think I mentioned this last time. It was an occasion where we

saw on display, two fantastic minds; Milton Friedman and Paul Samuelson. But neither one had a chance to really lay out his views, so I was a little disappointed.

02-00:09:45

Burnett: Yeah, yeah, I guess because they disagreed so much, that they couldn't...?

02-00:09:51

Shultz: Well, no, they agreed on a lot of things, but they disagreed on a few things.

02-00:09:57

Burnett: I think one of the things that was extraordinary about the Chicago school, and it would be interesting to have your perspective as a point of comparison, having been at MIT, which would be another institution where this was likely going on. One of the things that happens in a major way in the 1950s, at Chicago economics, is that they're really entrepreneurial about bringing in funding for projects. So those workshops were funded by Ford Foundation grants, Rockefeller [Foundation] and so on. Can you talk about that in contrast to other departments that you know? Was that unique, or unique in terms of its extent, or was this something that was happening at every major economics department after the war?

02-00:11:00

Shultz: I don't know the answer to that and of course, everybody needs money and you're seeking it. MIT was generously funded. If you don't have any money, you don't go anywhere.

02-00:11:15

Burnett: Right, right. One of the people we should talk about in relation to economics, before we come back to talking about the Graduate School of Business, I suppose, is Theodore Schultz, who was chair of the department during that whole early period that you were there. I think he took over the chair in '46, and so he oversaw the growth of the workshop program, and a lot of the—I think people say that he was behind a lot of the entrepreneurship and bringing in funding for these programs. Did you meet him as well, at the time that you came to Chicago?

02-00:11:57

Shultz: I met him when I came to Chicago. He was a wonderful man and a great chairman of the economics department. During that time, the then-version of USAID [United States Agency for International Development] came and wanted Chicago to run an aid program in Chile, and the answer was "we don't know how to run an aid program, we know how to teach economics." So, they funded economics and the department sent one of its best teachers, Gregg Lewis, down to Chile. He identified who the best students were and he also identified people teaching there, on whose recommendation you could count, that they could give you an honest evaluation. The result of that was, we had a stream of very talented Chileans come to Chicago. Later on, when there was a big revolution in Chile and their economy was in a shambles, and [Augusto]

Pinochet became the, in-effect dictator, he didn't know what to do about the economy, and basically says, "anybody know how to run an economy?" And our Chicago boys held up their hands, and he basically supported them. And Chile put into place a really open-market system, and it worked. They had the only healthy economy in Latin America during the 1980s.

02-00:13:30

Burnett:

Another big figure in that is Arnold Harberger, I understand.

02-00:13:36

Shultz:

Al Harberger, he was kind of the godfather. He nurtured people and took a big interest.

02-00:13:46

Burnett:

Had you worked with him on some project?

02-00:13:50

Shultz:

I worked with Al some and then when I was Secretary of Treasury and I was dealing a lot with economic problems around the world of course, when I went to Latin America, I always took Al with me, because wherever you went, he had students there, and after the day's activities were over, we'd gather in my room in the late night and talk about what's *really* going on around here.

02-00:14:15

Burnett:

Wow.

02-00:14:17

Shultz:

Al is still, he's like me, he's a little older, but he's still very active. He's a wonderful economist and he had a touch with people, and of course he was interested in economic development.

02-00:14:34

Burnett:

I think he's taught ten or eleven, at this count, central bank presidents of different countries.

02-00:14:43

Shultz:

He may have. He's at UCLA [University of California, Los Angeles] now, and he's been there for quite a while.

02-00:14:48

Burnett:

Right, right. So in a sense, the workshop program, I don't know if I can call it a program, but the workshop institution at Chicago, economists would choose problems of the day that were important, so economic development becomes huge after [Harry S.] Truman's Point Four [Program]. So it makes sense for them to really focus on economic development as an area.

02-00:15:19

Shultz:

I don't think there was a conscious effort, to have everything oriented to what the current issues were. They were more scholarly in their orientation, but of course that morphed often into insights into what's going on.

02-00:15:37

Burnett: Sure, sure.

02-00:15:38

Shultz: And something like the Chilean program, when it got going, was of course watching good economics be applied in a developing country and work. It was very satisfying, to see that it worked.

02-00:15:56

Burnett: Speaking of good economics, I guess one of the things that Chicago was known for at the time, and I'd like to sort of put us back in the period of the 1950s, to get your perspective on this. Some members of the Chicago Economics Department were—well, let me put it this way. In 1949, there was an article in *Fortune Magazine*, that described, rightly or wrongly, the Chicago economics department as the last bastion of laissez-faire economics in the country. So that was a perspective at the time, in the late forties, that Chicago had this reputation as being somewhat unique in terms of its respect for and development of neoclassical economic concepts, as opposed to what was happening in other economics departments and in terms of governance, in terms of economic policy in the United States. Can you talk a little bit about that, about how Chicago was unique in that respect? And maybe that's not true, maybe Chicago wasn't all that unique in that respect.

02-00:17:21

Shultz: Well of course, you had the Great Depression, affected people all over the world, and one of the most gifted economists at the time was John Maynard Keynes. He developed a way of looking at what should be done that involved government action, and Keynesianism, so-called. So that swept a lot of places, but it didn't really sweep the University of Chicago, which continued to be more classical, more—didn't get into the business of "the government should be intervening a lot." So, in my own case, I'll give an example. I became concerned about the massive amount of intervention in big labor disputes on the part of the [John F.] Kennedy and [Lyndon B.] Johnson administrations, because I felt that they were distorting the process of private collective bargaining, because if you're a private bargainer and you know you're going to wind up in the White House, you don't make your best offers until you get there. The result is that government intervention was changing the situation undesirably, I thought, and I spoke about it a number of times publicly.

Then in, I think around October, 1968, there was a strike of the longshoremen on the eastern and gulf coasts, and President Johnson, under the Taft-Hartley Act, declared that it would create a national emergency and he enjoined the strike, and there isn't a law, a provision, for a fast-track appeal to the Supreme Court, which was done, and the Supreme Court agreed with the President, so the injunction held. It ran out in mid-January some time, and I'm sworn in as Secretary of Labor, right out of Chicago, on the 21st of January, so the press all said okay, Professor Shultz, now you're Secretary of Labor, what are you going to do?

So I went to President Nixon, who was already preoccupied with the Vietnam War, and I said, "Mister President, your predecessor was wrong and the Supreme Court was wrong. This dispute will cause a lot of kerfuffle in New York City, and they think that's a national emergency, but it isn't, and if you will hang in there and make it clear to the parties that they're not coming to the White House, as soon as that dawns on them, I'll be able to get this dispute mediated and settled, and the process will take a step toward returning bargaining where it belongs." So, he hung in with me and it worked out just as I said. There have been very few uses of Taft-Hartley emergency dispute provisions ever since. So, you can call that the Chicago School at work. Don't intervene so much; you do a lot of damage.

02-00:21:00

Burnett:

Right, right. It contrasts with, I think there was a climate, after World War II, a notion that wage and price controls, that you essentially had a command economy during World War II. The markets were effectively shut down and prices were administered by the Office of Price Administration. Some had concluded that it wasn't a complete disaster. It kind of worked, and because of all the postwar pent-up demand, things were going well and people thought that managing the economy in that way was not such a bad idea.

02-00:21:57

Shultz:

I think I don't agree with that. I think there was a business group, the Committee for Economic Development, CED, and they had a different view, and they organized and they got papers written and they got academic people to come and give viewpoints, and they stood for a point of view that was a little different. I remember doing some work with them. In fact, when I was at Chicago, I managed a report on national labor policy, we did that for the CED.

02-00:22:38

Burnett:

There were these important groups; the National Planning Association as well. The National Planning Association starts immediately after the New Deal, and it is this reaction to what the members perceived as excessive planning in the New Deal. CED begins in late '42, and the original impetus, as postwar planning, the fear that people were going to take that momentum of planning during the war and extend that into the postwar world, so the CED wanted a kind of alternative to the enthusiasm for planning, and talk about the place, I suppose, a place for markets.

When I was doing research about NPA and CED, I always wondered what they were analogous to. You've been a member of both or you've consulted for both. Would you call those think tanks, or is that a bit before the fact? What were they as institutions?

02-00:23:40

Shultz:

The CED, I knew better. It was a grouping of intelligent businesspeople, chief executives mostly, and they came together and they said well, we'd better look into problem X, whatever it might be. So they would organize taskforces

to dig in and make reports, and usually they enlisted some academic support to help do work on the project, and I did one on national labor policy.

02-00:24:26

Burnett:

Okay. A number of folks that you interacted with were also active in the CED. Theodore Schultz was the director of the agricultural committee for the CED and for the National Planning Association, so there's an important Chicago connection there. Sumner Slichter.

02-00:24:53

Shultz:

He was at Harvard.

02-00:24:54

Burnett:

He was at Harvard, but he was also active, I think, in the CED.

02-00:24:58

Shultz:

Yes he was and those of us in Cambridge, at MIT and Harvard and other places, all came to what was called Slichter's seminar. He had, I think a weekly seminar in the labor economics arena and everybody came. It was a very nice way of pulling people together throughout the Cambridge area. It worked well.

02-00:25:22

Burnett:

Yeah. Can you talk a little bit about his career and his influence, because you wrote about some of his—speaking of impact that people have, academics have, on the policy spheres—can you talk a little bit about Sumner Slichter and his influence?

02-00:25:44

Shultz:

Well, I know mainly about his seminar. He was highly regarded as a sensible economist, so his views were paid attention to, and a lot of people who later came to prominence, like John Dunlop, were basically his students. So he was productive as an educator, as well as a seer.

02-00:26:14

Burnett:

Right, right. When you begin at the Chicago School of Business, can you talk a little bit about some of your academic work in the late fifties? I know you wrote about the Slichter Law. Can you talk a little bit about that?

02-00:26:43

Shultz:

Well, there was an emergency dispute law in Massachusetts that was identified by Slichter, and I wrote an article about it and how it worked.

02-00:26:5

Burnett:

And it seems to be an early indication of your view that there are problems when the government—there are problems with Taft-Hartley effectively, right?

02-00:27:11
Shultz:

Government intervention in disputes has its limitations, that's the basic— and so your problem is there can be bad consequences. So you have to balance trying to prevent those consequences with not having undue intervention, which has its own bad consequences, and the Slichter Law was an effort to deal with that.

02-00:27:42
Burnett:

What was fascinating about that paper was one of the problems that can happen with these policies that make the government the arbiter of last resort, or in some cases the first resort, is that it generates expectations and it creates a kind of certainty. You described how management, for its part, would hold out its best offer, because it knew that if it went ultimately to the government, they'd have to have something in reserve to pay up when that decision came down. And labor also could game the system if there was certainty that it would result in intervention. And so one of the features I took from your paper was the choice-of-procedure system in Massachusetts, lays out a set of options for the governor to intervene in labor disputes, so there's not a guarantee that the government is going to seize and take over a plant and administer and mandate arbitration. It generates uncertainty, the very possibility that there would be these different avenues, so the uncertainty short-circuits expectations or short-circuits gaming. Do I have that...?

02-00:29:18
Shultz:

Yeah, I think that's right, that's the idea.

02-00:29:24
Burnett:

Yeah, yeah, and it's a fascinating—so, in government policy, rather than setting—if you're going to intervene in the economy, if you set these really hard and fast boundaries, limits, controls, it encourages people to, once you know “okay that's the target or that's the limit,” you can start to work around it. But if there's uncertainty, it's analogous or it's a simulacrum of market uncertainty, and so people have to—people can't game the system as easily as when there's going to be a government intervention. So that was a really interesting paper. That's something that you had focused on, it must have been prior to going to Chicago?

02-00:30:17
Shultz:

Yes, that was a paper I wrote when I was at MIT.

02-00:30:20
Burnett:

Yeah, because it came out in '57.

02-00:30:21
Shultz:

It was a Massachusetts law.

02-00:30:23
Burnett:

Right, right. So you're thinking about government regulation in labor cases fairly early on in your scholarship. One of the things I thought, just to keep track of the personal stuff, you were on the East Coast and you'd been on the

East Coast for a long time, and then you make the decision to move. It's important, I think, to have a partner who is flexible and able to go. So this was a decision, to move to the Midwest. Can you tell us a little about—just keeping track of family stuff—?

02-00:31L23

Shultz:

Well, from a family standpoint, we learned a lot but we didn't realize we were going to learn. We lived in a really nice little community called Stow, Massachusetts, a little Massachusetts town, and several of my colleagues at MIT lived in the same area, and so we had a carpool. We drove back and forth on the Concord Turnpike, which is a rather pretty road. It's seasonal, different in the fall, it's beautiful trees and so on. So I liked that life and I said well, at Chicago we'll duplicate it, but there's no way. There isn't any road like the Concord Turnpike and there were no communities. So, people at Chicago said, "Well, why don't you live in the city, near the university, in Hyde Park?" So we wind up buying a house in Hyde Park, and we learned that city living is more neighborly than country living, because in the country, if you want to go to the grocery store, you get in the car and you go. In the city, you walk around the block, and so you run into people much more. So you knew your neighbors better in the city. It was a revelation, you didn't think of it that way, but right within walking distance of our house was a drugstore, a grocery store, a restaurant, laundry, everything is right there, so everybody walks and you see people walking by your house and you wave to them.

02-00:33:06

Burnett:

It's a special place. And so that was an adjustment but a pleasant one.

02-00:33:15

Shultz:

Yeah, we were surprised at how good it was.

02-00:33:21

Burnett:

I'm interested in the social side of your time at Chicago. It's known, at this time, as a very tight group of folks. Can you talk about the social dimensions of the economics department and the Graduate School of Business? Academic questions were engaged in, not just in the classroom and at seminars.

02-00:33:55

Shultz:

Well, we would periodically have somebody come, sometimes an internal person, somebody from somewhere else would come and give a lecture in the late afternoon or early evening, and everybody would go and usually afterwards, there would be some sort of gathering. But the faculty club at the University of Chicago is also a very active, convening place, and just as at MIT there was an economics table, the same was true at Chicago. You could go over there and sit down and you'd find a table with people you knew, and so it was very convivial that way. A lot of people would go and have drinks there in the late afternoon/ early evening, but I didn't do that. I had a family,

so I always went home. If there was somebody I wanted to talk to, I'd bring them home, and we'd sit around my house.

02-00:34:55

Burnett:

Can you talk about your children? When are they born in this timeframe?

02-00:35:00

Shultz:

Well, the first two were born when we were in Cambridge. Went to a hospital there, my wife did. And then the third child was born while we lived in Stow, and the next two were both born in Chicago.

02-00:35:22

Burnett:

So, five children in this time period. So, in addition to research, teaching, publishing, interacting with this dynamic group of people, you've also—that's, that's a family.

02-00:35:35

Shultz:

Well, they've turned out very well, wonderful kids, and they all have turned out to have good marriages and be good parents, and be good contributors in their communities, so I'm proud of them.

02-00:35:50

Burnett:

That's wonderful. So time management is an important aspect of being an academic and also a father at the same time, I'm sure. So, when you arrived there, let's talk about the first couple of years. Can you talk about the conversations that touched on industrial relations and labor economics in the late fifties that were in the air? What were people talking about? What was most interesting to you at that time?

02-00:36:35

Shultz:

Well, I'd taught a lot and I was fascinated with the difference between our downtown program and our on-campus program. One of the things you noticed was the downtown, we had quite a few black people in the program, there were none on the campus. And when I was Dean, that bothered me, and I looked into it. We didn't have any applications. It wasn't that we didn't... So I made a trip around to black colleges and places where there was big black undergraduate enrollment, and I said, "How come nobody applies?" The answer was, "it's too expensive and we don't think there's a job at the end of the rainbow," so they don't apply. So, I developed scholarship program, got money from companies whose names were known, and said here's a scholarship, so that pays the tuition, so it's not expensive any more, and second, the company guarantees a job between your first and second year.

02-00:37:50

Burnett:

Really?

02-00:37:51

Shultz:

You don't have to take it but there's a job there. That says nothing about what would be done at the end of your MBA, but you know that you're going to have a chance to be working in a company environment and get a chance. So,

we attracted some very able people, and I think the program had a big impact in business circles and helped get more black people educated to management and active in management. So it was a good thing.

02-00:38:25

Burnett: Right, absolutely. When did you start that program? Was that when you were dean?

02-00:38:31

Shultz: When I was dean, but it was in part, it was what I noticed, because we had a downtown program.

02-00:38:40

Burnett: So it was in the early teaching days, when you were faculty, you noticed that this was a problem.

02-00:38:45

Shultz: Yes.

02-00:35:47

Burnett: And you wanted to do something about it. So, I think the year after you joined, I think George Stigler is hired, and I understand that he had an influence on the shape of the Graduate School of Business.

02-00:39:15

Shultz: Well, George Stigler was hired in an act of real entrepreneurship on the part of Allen Wallis and all of us who worked with him on it. The Walgreens had given a large endowment to support a professorship. I don't know what it was, studying in American economics or something, and the purists at Chicago said we don't want a professorship that has an orientation like that. So it went unoccupied and the money got to be quite a sizeable amount. So Allen went to the administration and said, "I know somebody who's a distinguished scholar and who would have no problem with this, and that's George Stigler." So, he was attracted not just by coming to Chicago, which he had studied at, but also, the amount of money generated by the fund was large enough so that it not only paid his salary, but there was a lot left over. So George was told what's left over is yours, to spend on any professional purpose you want, you can hire a research assistant or you can do this or that. So he did that and he was very creative in the use of that money. But at any rate, his office was in the business school, but it was a joint appointment between economics and the business school, and when I became dean, it turned out my office was right across the hall from his, and George and I became friends and we played golf together a lot. That's one of the ways in which I got to know Milton Friedman, because George and Milton were very close pals.

02-00:41:13

Burnett: Right. So he had an influence, through the Walgreen Fund, he was able to fund a number of projects and seminars and things like that, and that was an

important aspect of things. You mentioned teaching, and you had a heavy load, I imagine, at the beginning.

02-00:41:34

Shultz: I didn't have a heavy load but I taught.

02-00:41:39

Burnett: Did you have graduate students?

02-00:41:41

Shultz: Yes.

02-00:41:43

Burnett: Can you talk about having graduate students and mentorship? That seems to be—you talked about the importance of mentorship in your own career. Can you talk a little bit about some of the students you had and your approach to guiding them?

02-00:42:01

Shultz: I remember two that I had that turned out later to have a big impact. One was called Dave Burke and the other was Dave Taylor. Burke was from Boston, he was a Boston Irish kid, and when Kennedy got elected president, he went to Washington right away and got brought on in the Kennedy Administration. Then, when I went to Washington to be Secretary of Labor, Dave Taylor had stayed and we worked together. So he came and was my executive assistant when I was Secretary of Labor. By that time, Burke was Ted Kennedy's chief of staff, so my two friends were there and they continued their friendship, and it was one way in which I got to know Ted Kennedy, and we developed a good relationship in various ways.

02-00:43:07

Burnett: In terms of changes at the Graduate School of Business, was there—you mentioned the Walgreen Fund, which gets rolling a little bit later. In terms of Dean Wallis's approach to changing or modernizing, or I don't know what the right word is, but developing, let's say, the Graduate School of Business, what was the plan? What was being discussed at the end of the 1950s, in terms of its growth or its development?

02-00:43:45

Shultz: Well, of course I went there in 1957, so what came before that, I could only recount, but I do know that when I was there, we decided—I think it was called the Associates Program, and the insight was, rather than find one or two very wealthy people who would give you money, you try to get a lot of people to give lesser amounts. Then you're hedged, so if somebody gets mad at you it's not a big deal. So we developed, as Associates, a lot of businesses in Chicago, each had X amount, I forgot how much, but anyway, it was a good cash flow. Many of them were interested in the school, like Pete Peterson, for instance, who was head of a little company called Bell and Howell, and Pete

and I got to know each other well, and later on, when I was in the government, I brought him into the government. He's a very bright, able guy.

02-00:44:58

Burnett:

Can you talk a little bit about Chicago scholars in the School of Business, the economics department, or even in the law school, people whose ideas influenced your thinking, not only about labor economics but later, about public policy. The ideas that were being discussed at Chicago in the 1950s, are there folks who really shaped your thinking?

02-00:45:30

Shultz:

Well, Allen Wallis was a very good guy, and Vice President Nixon asked him to chair a little group working on economic policies and I helped with that group, and I got to know Allen well. When I became Secretary of State, I got Allen to come and be my Undersecretary for Economic Affairs, so we had a continuing relationship. He was in the Friedman/ Stigler intellectual category. Al Rees, I've mentioned before as being very important, and then people along the way.

There was a person there named Tom Whisler, who had a little different background, but he and I got interested in the computer, and we had a conference on how it was changing the way you managed things, and we wrote a book entitled *Management, Organization and the Computer*, that was way ahead of its time. Great insight, but nobody paid any attention to it.

02-00:46:44

Burnett:

[laughter] Yeah, you were talking about that the other day. Automation becomes a huge concern in the early to mid-1960s. I think by 1966, '67, TV shows are featuring robots replacing workers.

02-00:47:11

Shultz:

I wrote a piece on automation, I think with Jim Baldwin, back when I was at MIT, pooh-poohing a little bit.

02-00:47:21

Burnett:

Pooh-poohing automation?

02-00:47:23

Shultz:

Just saying look, we've been here before. It's not a new thing, that you have technological change come along.

02-00:47:33

Burnett:

Right, right. And I think that that's, you know, in terms of, if we can talk more specifically, about specific things that you've written and discussed. There seemed to be a connection between a kind of market orientation and your thinking as an economist, and your approach to technological change. Rather than seeing it as a kind of obstacle or something that needs to be dealt with, adapting to it becomes the important thing.

02-00:48:06

Shultz:

Well, I was interested in how you make it effective, and as I think I mentioned last time we talked, we had a wonderful article in our cases and readings book, on the introduction of continuous-aim firing into the U.S. Navy, that I used with MIT students, to show just because something is good, doesn't mean people adopt it right away. There are resistances to change out there and you've got to understand it and work on it, if you're going to get the change to take place.

02-00:48:40

Burnett:

Absolutely, absolutely. Well, perhaps we should pause, and we'll continue in the next segment.

(pause in recording)

02-00:48:57

Burnett:

So, you've become dean in 1962, of the Graduate School of Business. Can you talk about how that came about and what your plans were for leading the Graduate School of Business at that time.

02-00:49:12

Shultz:

Well, it was, I think rather sudden, that the dean, Allen Wallis, became president of the University of Rochester, and Jim Lorie, who was there, apparently didn't want to be dean. He was associate dean. So I was asked if I would be dean and I said well, okay, I'll give it a whirl.

02-00:49:42

Burnett:

And that's the leadership position in the school obviously. What had you taken away from observing the previous dean, Allen Wallis, and other leaders? Arthur Burns was a big mentor to you. What had been some of the takeaways from your contact and observations of leaders that you've worked with previously?

02-00:50:11

Shultz:

Well, one of the things that was clear about Allen Wallis and why he was so successful was he had a strategy. He had an idea of how the school should proceed, what was the strategy, and the idea being you learn how to learn from experience, not just vicarious experience. That led to getting first-class people in various areas; economics, statistics, psychology, and so on. It was a different kind of a school and I agreed with that strategy, so I tried to uphold it and get as high-quality people as I could, and we were able to attract some very high-quality people when I was dean.

02-00:51:01

Burnett:

And so you were just making the program as good as you can, to attract the best graduate students and the best faculty.

02-00:51:10

Shultz:

There's where I introduced the black student program that I mentioned.

02-00:51:14

Burnett: Right, right.

02-00:51:16

Shultz: Also, I had a test. The law school had moved across the midway. Chicago has a big midway area and it's quite a separation between where most of the university is and where the social sciences were. A lot of the business school backers said, why don't you move across the Midway? We'll raise the money and build a nice building and whatnot. I dug in my heels and I said no. Our school wants to be attached to the social sciences. That's the intellectual structure of the school, and if we move across the Midway we'll, in a sense, move out of that atmosphere. So I declined, much to the consternation of people who wanted to put up the money. But then we did have the opportunity—I forget just how it happened—to inherit some very nice space right in the area where the school was, so we didn't have to move and we got better quarters. Now the school has a new building, but it is on the right side of the Midway, just down a little bit, so it works well.

02-00:52:40

Burnett: Space is an important consideration, the geography of intellectual work, right?

02-00:52:49

Shultz: Geography makes a difference, who you bump into, and how hard it is, what kind of a problem is it to go to a seminar. If all I have to do is walk a couple doors down that's one thing. If I have to get myself across the midway that's a wholly different proposition.

02-00:53:07

Burnett: Was the business school close to the economics department?

02-00:53:11

Shultz: Yes, physically close.

02-00:53:13

Burnett: Physically close. And the law school, it had moved further away during this period.

02-00:53:19

Shultz: The law school was originally right in that area, and then it moved across the Midway, and we inherited the old law school building.

02-00:53:27

Burnett: Did that have an impact? I mean, part of what makes "Chicago School" is that there's this tripartite institutional arrangement, where there's this incredible interaction amongst the three places.

02-00:53:40

Shultz: It made it harder but everybody worked at it. In the law school, there was a guy named Bernie Meltzer, who was a labor lawyer, and he was a good friend and we saw a lot of him. We'd have lunch together at the faculty club and we

had a seminar together, so we kept in touch, but it's always a struggle, you're going a little further.

02-00:54:05

Burnett: I think there's a story about the elevators at the economics department.

02-00:54:13

Shultz: The what?

02-00:54:14

Burnett: There's the hallway in front of the elevators, which was an important place where economists would, while they're waiting for the elevator, they would start chatting, and it just became this, it was almost a completely unexpected meeting place. So, I think that can be a part of, you know, even within a building itself, structuring space so that people have opportunities to meet.

02-00:54:42

Shultz: Well, in the building where the business school was, Haskell Hall, you had mail slots. You went down and your mail was put into a slot, and there was right nearby, a room. So, we fixed it so that there was coffee there all the time, and people could go in with their mail and open it, and it turned into a place where people would sit around and talk. It just happened by chance but it turned out to be very good.

02-00:55:10

Burnett: Right, right. One of the things that happens around the time that you become dean, not only are you taking on this administrative responsibility, but there's also this Ford Motor Company project that you become involved with. Can you talk a little bit about the origins of that project and how it evolved?

02-00:55:43

Shultz: I don't remember very precisely about it, but I think it came out of Ted Yntema. He had been a fairly prominent professor at the business school at Chicago, and then he became the treasurer, or some such position, a very high position at the Ford Motor Company. So, he invited us to work on some project and I've forgotten what it was. But also in that period when I was Dean, a man named Dwight Cochran was head of something called the Kern County Land Company.

(pause in recording)

02-00:56:24

Shultz: Another influence from the business world was a man named Dwight Cochran. He was a product of the Chicago MBA program, and he was head of something called the Kern County Land Company, which was a San Francisco company. It had a lot of oil wealth in Kern County, and at one point, his company acquired the J.I. Case Company, which is located in Racine, Wisconsin, which is not very far from Chicago. So he asked me to become a member of the board of that company and I did that, and it was extraordinary,

because some of the San Francisco people came with him, to be members of the board, and one of them was an interesting guy named Bill Hewlett. I didn't know anything about Hewlett-Packard or Bill Hewlett or anything, but I listened to this guy and I thought more and more, he understands the products better than the people producing them. He'd ask the most penetrating questions and make observations and suggestions. So I came away saying this guy Hewlett is something else, and of course once I got here to San Francisco and of course, when I was Secretary of Labor, I started interacting with Dave Packard, who was Deputy Secretary of Defense, and then I began to learn about Hewlett-Packard and about Bill Hewlett. So, I got introduced to the West Coast, and some of the genius out here, through being Dean at Chicago.

02-00:58:02

Burnett:

Does that lead to—I don't want to jump ahead, but does that lead to later connections that lead to your position at Bechtel?

02-00:58:14

Shultz:

No, it had nothing to do with Bechtel. This was all part of my—I studied economics. I was interested in labor economics and industrial relations, which leads you almost inevitably, into the real world, being an arbitrator, a mediator, being a director, being involved, and you start making transitions and you start saying how do I use what I learned in the classroom to do things, and you have experiences and you learn things.

I remember when I went on the MIT faculty, there was a convention that you're supposed to go to a faculty meeting and say something. There was a man named Bemis there, and he got up and he said, "I'm very proud to be a member of this faculty, it shows what my colleagues think of me and what the administration thinks, but maybe you'd be interested in what a couple of the old timers in the little town in Maine, where I grew up, think." He said, "A couple of them were listening to the radio and the announcement comes through, "Bemis made a professor at MIT," and one says to the other, "I'm not surprised, right from the first grade he was a smart kid." The other one said, "That's right, and over time, he got so he knew more and more all the time," and the other one says, "That's right, by this time, Bemis, he knows everything." The other one says, "That's right, that Bemis knows everything, but he don't realize *nothing*." I love that story because it says there are all kinds of knowledge, and the knowledge you get from experience is what makes you realize things, and a lot of the things you realize, you can't think up, you have to grasp as an understanding. Those are the things that guide your actions to a very considerable degree. So, I think in my own case, I had all these experiences in interacting, as an arbitrator, as a mediator, doing research on causes of industrial peace, and then being a director of a company and so on. I was going back and forth between the academic world and the business world, so my realization level increased and that was good for me. It helped me as a dean.

02-01:00:49

Burnett:

You've learned many basic lessons that you've imparted in your writings, about your career and your experiences. You've drawn from those experiences, some kernels of wisdom. Reading your writings from this period, one of the things that you seem to be very concerned about is inflexibility, is that you seem to be—what you're worried about is when there's a rule, it's doesn't matter, it's not necessarily a government thing, it could be a collective bargaining agreement. When there's some fixed way of doing something, it runs up against change, it runs up against inevitable change, and what you seem to be most captivated by in terms of human behavior is flexibility. I see that when you're writing about the case studies, where management and workers work together, recognizing that things were changing under their feet and that they needed to do something about it together, and talk about it and work it out. But when you have a procedure that says you have to do it, work-to-rule, you have to do it this way, it eventually leads to friction against the changing tide of whatever is going on in that company or in that country.

02-01:02:20

Shultz:

In the collective bargaining arena there was an interesting way of workers in effect having a strike. Work to rule, obey every rule, and the whole place will come to a standstill.

02-01:02:33

Burnett:

Right, exactly.

02-01:02:35

Shultz:

There was a great Senator from Illinois named Everett Dirksen, and he said, "I am a man of principle, and the first principle is flexibility."

02-01:02:48

Burnett:

(laughs) Absolutely, absolutely.

02-01:02:52

Shultz:

But you don't want to be too flexible.

02-01:02:56

Burnett:

Yes, that can lead to a number of other problems as well, absolutely. Well, perhaps we should leave it there for now, and we'll take up in the afternoon.

(pause in recording)

02-01:03:10

Burnett:

This is Paul Burnett, interviewing George Shultz for the Economists oral history project, and we're here at the Hoover Institution. We were talking about the beginnings of your position as dean of the Graduate School of Business, and the work that you did in building up the program there. Backing up just briefly, before you became dean, did Dean Wallis make a conscious decision to hire a different variety of economists, or economists with a variety of different backgrounds? Did the composition, in other words, of the

Graduate School of Business, change dramatically during Wallis's period and into yours?

02-01:04:13

Shultz:

I think in economics, the main development was the emergence of the field of finance with great strength at the school, and that happened because, with a lot of help from Jim Lorie, we raised the money from, I think Merrill Lynch, to put on a computer the entire record of the New York Stock Exchange, from I think 1926 to whenever it was, nineteen sixty-something. It was done very carefully, accounting for dividends and splits and so forth. So you could compute the rate of return for the stock exchange as a whole. It was devastating for people managing mutual funds, because it turned out that if you just invest in the market, you did better than most mutual funds.

But at any rate, the field of finance became very important and popular at Chicago, and we hired Merton Miller, I think he came when I was dean, became a Nobel Laureate. Gene [Eugene F.] Fama came along then, as a student, I think originally, and he eventually became a Nobel Laureate in this field. So the field of finance became very important to the business school. It was a branch of economics.

02-01:05:42

Burnett:

And labor economics or industrial relations, continued apace?

02-01:05:47

Shultz:

It continued on and I continued my work, and I've mentioned the emergency dispute issue earlier.

02-01:06:00

Burnett:

You talked about automation, the consequences of automation for management, an article you wrote with Tom Whisler, could I ask you a question about technology and economics, from the period that you were working as an economist? Could I ask you about computing power and how that altered the work that people were doing in economics during the 1950s and sixties?

02-01:06:44

Shultz:

Well, you move from doing sums on paper to Marchant machines, and they became displaced by the computer. So people were able to do calculations of a much greater range, so that improved the econometrics side of things greatly and everybody benefited from that I think. In my own case, I was more on the institutional side of things. For example, I worried a lot—and I may have mentioned this earlier—about the emergence of guidelines for wages and prices, and the implications of that structure of thinking for wage and price controls. I was alarmed by that and we had a big conference at Chicago, which I developed with a colleague, Robert Aliber, and we published a book entitled *Guidelines [Guidelines, Informal Controls, and the Marketplace: Policy Choices in a Full Employment Economy]*.

02-01:07:48

Shultz:

We had the heavy hitters come and talk. Milton Friedman gave a brilliant talk, Bob Solow did too.

02-01:08:00

Burnett:

Can we get a sense of the prehistory that leads up to this set of questions for economists? A lot of things are coming to a head, it seems, in the early 1960s. A number of things that economists have been talking about and are in some ways just beginning to talk about. What was happening with wage guidelines? There have been wage and price controls in the past, during wartime, but what are guidelines and how does that differ and why were guidelines imposed or developed by the Federal Government?

02-01:08:47

Shultz:

Well, people were worried about inflation and what to do about it, and the classical way of doing something about it was to restrict the money supply. That had sometimes, the effects that the economy didn't do as well for a while, so people didn't like that, they looked for an alternative, an easier way out, so guidelines were a way of saying here's how much wages and prices should go up. But it was, to my way of thinking, a kind of intellectual precursor to wage and price controls. In other words, it's the wrong way to approach the subject of inflation.

02-01:09:32

Burnett:

Was that movement towards guidelines a result of a commitment to full employment? Is it because people were wedded to that idea, that it was important that—a certain level of unemployment was just unacceptable?

02-01:09:56

Shultz:

Well, most anybody would agree that obviously, you want to have high employment. You can't have everybody employed at the same time, because among other things, people want to change jobs, and they'll have a period of unemployment while they move from A to B. So, you want to have high employment and you want to keep away from inflation, and the guidelines were an effort to sort of split the difference intellectually, but I worried about it, and later on, that manifested itself.

When I was director of the budget [Office of Management and Budget], these guidelines became more important. Arthur Burns became an advocate, and I worried about it. We had inflation. I gave a speech entitled, "Steady as You Go," and the point of the speech was, we have the budget under control, and with a reasonable amount of policy, if you have a little patience, inflation will come under control and will be okay. As it turned out, the level of patience was not very high, and as I said, an economist's lag is a politician's nightmare. Politicians want instant results, and so we wound up with wage and price controls, over my objections, but anyway, that happened.

02-01:11:33

Burnett:

So, in terms of Chicago's influence, you could argue that it's beginning to take on a more and more public face. It's scholarly, absolutely, in the 1950s, and it has this scholarly reputation, and there are forays. Friedrich Hayek was associated with the Chicago School in the postwar era, and he wrote, *The Road to Serfdom* in 1944, and that was very widely read. In the early 1960s, Milton Friedman writes *Capitalism and Freedom*, and it seems like several folks at Chicago are becoming more vocal in the public sphere. What was your reflection on that at the time? Did you think that was the proper role of an economist, or did you think it was beneficial to public discourse, to have a set of Chicago viewpoints out there?

02-01:12:51

Shultz:

Well, I think it's very important that economists express themselves on public issues, because economists have lots to say about them. So it's a good thing and people argued, and I was there, reflecting on the interventions, on the guideline subjects, on other things, discrimination in the workplace. I came into office finally, with a set of viewpoints, which then I translated, sometimes successfully, sometimes not, but into action.

02-01:13:41

Burnett:

Well, so many things seem to be happening on the scholarly front and on the political front, in the country. There seemed to be, some of the arguments that were coming out, for example in the *Labor Problems* volume, the second edition that was put out, scholars such as Ted Yntema, were concerned about cost-push inflation, this question that perhaps inflation is being governed not so much by the demand for goods and services, but by organized bargains for higher wages. Milton Friedman had come out with a theory of a natural rate of unemployment, which was itself a kind of reaction to the Samuelson-Solow tradeoff between unemployment and inflation. So it seems like there's a tremendous amount of activity surrounding burning questions at the economic level in the United States. At the same time, speaking of lags, the public seemed to like price controls, at least in 1946, 75 to 80 percent of those polled were in favor of price controls, and unfortunately when they're lifted, that's when it hurts the most. So, the prices doubled when price controls were lifted, in 1946.

So I guess part of the role of an economist, for the publicly minded economists at Chicago, was explaining how some of these processes unfold in time? Do I have that right? Price controls might be popular in the short-term, with consumers, but economists such as Milton Friedman began to explain what the long-run consequences of price controls might be, for example. So, can we set up a kind of laundry list of the basic economic problems that were coming to a head in the early 1960s, that required fresh or renewed discourse, economic discourse, in the public? For example, the position of the United States in the world at that time. The United States had enjoyed a postwar boom, but starting in the 1960s, the United States began to encounter balance-of-payments difficulties. Could you talk a little bit about how economists were

able to influence and shape public opinion in the 1960s? How were Chicago economists able to provide a more sophisticated understanding, or their sophisticated understanding, of the economy and economic problems?

02-01:18:03

Shultz:

I think you point out that when you control prices, what you control, you get less of. So, Milton Friedman and George Stigler wrote a wonderful article called, "Roofs or Ceilings." You can have ceilings, but you don't get roofs. If you want roofs, you've got to let the market operate, and we see that persist to this day. There's this sense that you control prices and nothing happens. Things happen, there are results, and what you control, you get less of. Right now, in the healthcare area, we try to control costs by wage and price controls, so we get less health providers, while we're building up demand, that's why we're heading for such troubles. The lesson is there, it's been learned and learned and learned, but unlearned.

02-01:19:11

Burnett:

Right. We have a habit of forgetting some of these basic lessons. One of the other big things, I suppose, to come out of Chicago, and it's now a whole field of economic research, human capital. It's something that was discussed at Chicago for a long time and Ted Schultz writes about it at the end of the 1950s.

02-01:19:48

Shultz:

And Gary Becker did a lot of work on it.

02-01:19:50

Burnett:

And he picks it up, absolutely, and makes it his own. Can you talk about, did that have an impact on you in terms of your thinking about some of the work you were doing in industrial relations and labor economics?

02-01:20:07

Shultz:

Not particularly. I think that you obviously see the importance of human capital to an economy. After all, it takes people to produce things and the more productive they are, the more they're going to produce, so it's not complicated.

02-01:20:30

Burnett:

Right. One of the projects that you got involved in too, and this results in a book in 1966, it's with Arnold Weber and it's called, *Strategies for the Displaced Worker: Confronting Economic Change*. It comes out of this Automation Fund Committee. Can you talk a little bit about that project and what was important about it to you?

02-01:21:01

Shultz:

Well, the Armour Automation Fund work was very educational. You mentioned that book. We pioneered the process of job training for displaced people, and so we wrote about what to do and how hard it was, and how to do one thing and another, detailed this. But I also had other experiences. The

company closed its plant in Fort Worth, Texas, so our team went down to see what we could do. The team was: the management guy, Arnie and me, and the union guy, who happened to be black, a very capable person. So we go to a hotel before we go to the plant, to register, and I go first and am welcomed, and I got a nice suite, and the management guy registers, Arnie registers. Then the union guy comes and the clerk looks at him and says, “We don’t have any rooms.”

02-01:22:03

Burnett: Right.

02-01:23:06

Shultz: And he pulls out of his pocket, something none of the rest of us had, namely a confirmation slip. So the clerk takes it to the back office and comes back and says, “We don’t have any rooms.” By this time, my blood is boiling and I say, “You do have a room, you gave me a suite, put a cot in the other room and register him.” The clerk did it; he was so nonplused. But you have the experience of discrimination, it’s not an intellectual thing, it’s an experience, so it hits you deeper. So, then we wrote that book on the training program. It was really—the plant in Fort Worth was the basis for it. Then we had subsequent experiences, and I think I’ve told you about them earlier, the Worthington, Minnesota experience.

02-01:23:00

Burnett: Yeah, yeah.

02-01:23:01

Shultz: That was part of the Armour business.

02-01:23:02

Burnett: Right, and transferring folks up there and how one does that, right, and this adaptation.

02-01:23:09

Shultz: Well, you have what people described as an impossible problem, but it turns out if you work at it and you let people interact a little bit and be sensible, things can work out. We applied those ideas to the desegregation of the southern schools, later when I was in office. I think I told that story too here.

02-01:23:32

Burnett: Well, one of the things that’s striking about the book is that you realize that capital moves, as they say, technological change takes place. This whole context for this book is that the Armour Company is closing a bunch of plants and opening some new ones, but the new ones are so capital-intensive and labor-saving, that they hire a mere fraction of the workers.

02-01:24:04

Shultz: Well no, the real point though, is that the plants were smaller and they were located out where the animals were, so they wouldn’t have to have the animals

lose all their weight, while they're driving to Fort Worth, or the old Chisholm Trail and so on, so that the whole structure was changing.

02-01:24:33

Burnett:

Right, right. And it provided economies. But I guess one of the features of labor too, is that they're less mobile, at least in this context, and that was the trick right? How can you offer incentives or how can we see how to get people from one domain or one town, where they have connections and family and so on, to move to another place where there's an opportunity, but also the risk?

02-01:24:59

Shultz:

Well, you also see if you can't retrain them for jobs in the place where they lived, and some you could and some you couldn't.

02-01:25:09

Burnett:

I mean, it was a daunting task, because they were older. Many did not even have a high school education, so there were limited opportunities in some cases, and there was an understanding that they were probably not going to be able to make what they had made with the company. But the key that you and Arnold Weber...

02-01:25:33

Shultz:

I had another experience that's relevant, because I was interested in unemployment in the ghetto, as a result of this. So I get invited to the White House. President Johnson was interested in the subject, and he had little taskforces he would set up, which were not secret but they weren't publicized, to work on subjects that he was interested in, and give him ideas. I remember him saying to me, "George, if you come up with a good idea and it turns out to be your idea, it's probably not going to go very far. But if that idea becomes my idea, it just might go someplace."

So we came up with a good idea and he took it and ran with it brilliantly. We said retraining programs aren't going to get you anywhere. There has to be a job that's there, that you see, that you're going to learn how to do. So we rallied the American business community to be part of this, and one of the things you learned, of course—the workers at the Armour plants didn't have this problem—but a lot of the people in the ghetto don't know how to be in the labor force, let alone do a job. To be in the labor force, you've got to get up in the morning and get dressed and get to a plant by eight o'clock or something. So you teach them that, and then they begin to do something and then get trained, and you get somewhere. So that was quite an experience. Of course, the workers who were displaced in the Armour plants, they were experienced people in the labor force and they could do things.

02-01:27:20

Burnett:

And a number of them were transferred successfully.

02-01:27:24

Shultz: Yes.

02-01:27:26

Burnett: I think in one case, it was 36 percent.

02-01:27:28

Shultz: We did a lot and the book details both the triumphs and the failures and the difficulties.

02-01:27:35

Burnett: Yeah, and it was very instructive. Is this the first comprehensive study of workforce relocation and training?

02-01:27:48

Shultz: It was one of the first. It was pioneering in some ways.

02-01:27:51

Burnett: Yeah.

02-01:27:54

Shultz: Of course you also have the community to think about, who were not only looking at workers, but here's a community and all of a sudden it loses a big computer company and it loses the taxes associated with it and so on, so they have to make some adjustments too.

02-01:28:12

Burnett: Yeah, absolutely. And as you said, community buy-in is important, the recipient community as well, and you mentioned that. You have to figure out what the social or cultural mechanisms are in a community. If it's churches, it's churches, if there are other situations that could be engaged as well. And there is a sense of a message of empowerment, it seems, from this study, and one of the concluding statements is that "governmental and private programs can only help the jobless to help themselves." So it's this kind of approach that this is meant to enable people to solve their own problems.

02-01:29:03

Shultz: Well, you would never get anywhere if you're just going to solve everybody's problems for them. They have to be a very significant part of the process.

02-01:29:12

Burnett: And this is something, it's been a part of your message, or not message, but lessons that you've learned, when you've done your case studies, realizing that when workers and management take ownership of their negotiations, they're going to make it stick and it's going to be successful.

02-01:29:30

Shultz: Exactly.

02-01:29:31

Burnett:

Right. So, we have talked about a number of the folks at Chicago. There's a couple we haven't touched on just yet. You mentioned him, but H. Gregg Lewis is a pretty towering figure.

02-01:29:58

Shultz:

Yes, very, a very good economist.

02-01:30:01

Burnett:

Can you talk about how you knew him?

02-01:30:04

Shultz:

Well, he led the labor workshop and he was a gifted teacher. I think he was the one that we sent down to Chile to teach and to identify the good students and the good teachers and so on. He was very talented.

02-01:30:24

Burnett:

One scholar we didn't talk about too much is Aaron Director. Did you have any interactions with him?

02-01:30:35

Shultz:

Well, he was Rose Friedman's brother and he lived a couple of roads down from us.

02-01:30:40

Burnett:

Oh, yeah?

02-01:30:42

Shultz:

He was a very quiet man, but wise and smart, so people listened to him, I listened to him, but I can't say that I had a close relationship with him.

02-01:30:57

Burnett:

He's not known to have published a lot, but he's known to have influenced people.

02-01:31:02

Shultz:

Yeah, I think Rose and Milton would say that a lot of his thinking was reflected in what they wrote. He moved out here as they did, and they lived out here, right nearby, in Palo Alto.

02-01:31:25

Burnett:

I'm wondering if we can do a kind of comparison. I asked about your sense of the Chicago school in the 1950s. By the end of the 1960s, do you have a sense of the identity of the Chicago school, whether it's changed at all or whether it's kind of the same? Is it perceived in the same way in the public—?

02-01:31:54

Shultz:

Well, I don't know in the public, but certainly the Chicago atmosphere encouraged you to have a respect for markets, and the efficiency generated by markets. In that sense, they were thought of as conservative.

02-01:32:16

Burnett:

You were extremely active as dean. One of the features of the Chicago School of Business is that it had a book series. The dean was responsible for assembling these and writing up the framing of these book projects. You've talked about a couple of the projects you did, but according to one book I read, at the end of the sixties, it had your tally at nine volumes that you had edited during that period. Is that an exaggeration?

02-01:32:57

Shultz:

That's—I'm startled. (both laugh)

02-01:33:00

Burnett:

It's in print. I don't know if that's the case or not.

02-01:33:05

Shultz:

Well, we wanted to publish the results of the things that we were doing, and we thought they were important, and so you get them out in the light of day.

02-01:33:14

Burnett:

Right, right, absolutely. And some of these things are really connected to policy and things that are happening. So, I guess with the book that we just finished talking about, *Strategies for the Displaced Worker*, there was the Trade Expansion Act of 1962, which provided federal funding for displaced workers, but I guess your sense was that they didn't know enough about what happens to displaced workers and how displaced workers might be helped. Was that project, did that come out of that federal funding, or was it in any way a response to the act, the Trade Expansion Act?

02-01:34:10

Shultz:

As I'm recalling it, we knew that we had to figure out what could be done to help the workers who were displaced, and obviously, you want to get them on to other jobs, so probably, you need to retrain them, give them the additional skills. There wasn't much literature to look to. We had to sort of do it ourselves, and I think we became reasonably preeminent in the field, and the book that we wrote reflected that. I remember later on, when I was Secretary of Labor and Arnie was the Assistant Secretary for Manpower, and we reformed the Job Corps. I remember a *New York Times* editorial, they didn't really like what we were doing but they say well, but these guys do have some credibility, because they've been there.

02-01:35:10

Burnett:

Yeah, absolutely. Well, perhaps we can talk also, about the—do a sort of 360 on the Graduate School of Business in 1968, versus when you started at the Graduate School of Business in 1957. How had the program grown and developed and what was your sense of it as you were leaving the Graduate School of Business?

02-01:35:46

Shultz:

I thought we had a very strong school, that we were implementing well, a basic strategy and concept of learning how to learn from experience. I always

felt that in many ways, the downtown program was educational for the faculty, and certainly for me it was. We had introduced some really talented black students into our student body and that was working well, so it was a good school and still is.

02-01:36:31

Burnett:

So during this time, now we're into the late sixties, can you lay out some of the problems that are building in the American economy at this time. What's happening that's—how could I describe it? Could you talk about economic pressures that are building towards the end of the 1960s. What's happening that made you reflect on what was going on?

02-01:37:03

Shultz:

The Vietnam War was increasingly unpopular, and in some ways, that dominated the political landscape, but in the meantime, I'm just recalling now, the economy was not terrible, but it wasn't that vigorous, and there were problems of unemployment, there were problems of discrimination, and there were plenty of issues to preoccupy a new Secretary of Labor. And out of the preoccupation with discrimination, I started the Philadelphia Plan, and that was my first big battle in Washington. The skilled building trades in Philadelphia had no blacks, so we said they've got to change that and we said you have to set some objectives and timetables, goals and timetables we said. So I remember testifying before a Senate committee, and they said, "You're trying to establish a quota." I said, "I'm trying to get rid of one." What do you mean you're trying to get rid of one? Well, the quota has been zero for a long time, it's been very effective. In order to get rid of it, you have to hit it with a sledge hammer, that's what we're trying to do.

02-01:38:27

Burnett:

Right.

02-01:38:29

Shultz:

So it was a deep battle and there was a vote in the Senate, and I went to the Gallery and after it was over, the leader, Hugh Scott, the Republican Leader, gave me his tally sheet, and my side won by ten votes, and we had Democrats and Republicans on both sides. It was bipartisan. That was one of the incidents where I had some very constructive interactions with Ted Kennedy, and I mentioned earlier, that I developed a good relationship with him.

02-01:39:12

Burnett:

It's something that is in the histories of the postwar era, historians have written about this kind of understanding between both Keynesian-oriented folks and conservative folks, that growth was the way; "we're going to handle any problems that we have, as long as we keep the economic growth up and unemployment low. We'll lift all the boats."

02-01:39:49

Shultz:

Everybody wants high growth, low unemployment and no inflation. There's no controversy about that goal.

02-01:39:53

Burnett:

Sure. No, absolutely, absolutely, but one of the things that some commentators started to talk about in the late fifties, there's John Kenneth Galbraith's *The Affluent Society*, Michael Harrington's work at the beginning of the sixties, talking about this kind of stratum that is not benefiting, it seems, from this growth orientation as much, and it's this excluded—it's an excluded racial dimension, racial stratum.

02-01:40:36

Shultz:

President Kennedy very famously said, "A rising tide lifts all the boats." But that wasn't true, there were some boats that didn't get lifted, so you had to worry about them and you had to worry about them because part of it was racial discrimination, but part of it was also inadequate opportunity for education and training. So you had to go on all those fronts.

02-01:41:04

Burnett:

So that there's an important—in order to maximize the usefulness of everyone in society, that's what you want in a market society, you want to really take advantage of all the talent that's out there.

02-01:41:18

Shultz:

You do, and you also want to give people a chance to take part.

02-01:41:23

Burnett:

Right, which is the democratic side of it. And so all of that is in play at the time that you take up your new role.

02-01:41:40

Shultz:

Well, while I was Secretary of Labor, Pat Moynihan was in the White House, and he and I developed a friendship and we worked together, and one of the things we worked on, I think it was called the Family Assistance Plan. It was the first time, in looking at how you move people off of welfare into work, and you confront the high implicit tax involved in drawing welfare payments when people earn money. We confronted that issue and I made the suggestion that we should ignore the first large increment of what you earn, before you started taking welfare away, and that made the Family Assistance Plan go. Pat called it the "Shultz disregard."

02-01:42:34

Burnett:

What was the function of the "Shultz disregard." What was the purpose of it?

02-01:42:38

Shultz:

If somebody is on welfare and they start earning money, when they earn a dollar, you take a dollar away from the welfare. It's like a hundred percent tax on earnings. So, you've got to figure out a way to reduce that tax, so you have incentives to work. If you start with the first dollar it's very hard, so my suggestion was you don't start with the first dollar. People earn up to a certain amount and you disregard it as far as reducing welfare payments, so they get ahead. I don't remember the numbers involved, but it kind of gave us the concept we needed to figure out how you move, and I might say, that that has

been a lasting contribution, because as when we had the welfare reform during the Clinton Administration, the key was how you keep the tax rate down, the implicit tax rate. People somehow don't realize, if you reduce the welfare payments, that's a tax.

02-01:43:58

Burnett:

Well, this is the beginnings of workfare, I suppose.

02-01:44:06

Shultz:

Yes.

02-01:44:07

Burnett:

And you were incentivizing continuing to work and continuing to reenter the workforce, as opposed to penalizing someone effectively, for getting off of welfare rolls. So we've already launched into your time as Secretary of Labor. Can you talk about how that transition came about? How did you take up the position of Secretary of Labor?

02-01:44:31

Shultz:

During the campaign, I think it was Arthur Burns, on behalf of President Nixon, the candidate, asked various people to get out policy papers that would be available to the president elect, if he were elected, to get started on certain areas, and he asked me to do one on wage-price issues and labor-market issues, labor-management issues. So I formed a little group, good people, and we turned in the report right after the election. I'm out here at the Center for Advanced Studies, and I get a call from Arthur, complimenting me on what we had sent in and said would I be willing to be Secretary of Labor. So I talked that over with my family and we decided it's a subject that I knew a lot about, and I knew the department somewhat, from work I'd done, so I should say yes.

So, then President Nixon called me and asked me to be, and then he said, "I'm going to do something that's never been done before. I'm not going to announce my Cabinet one at a time. I'm going to announce them all at once, so don't say anything about it and we'll set a time when you come to Washington, and I'll introduce the whole Cabinet at one time." So, I said, "Well, in the meantime then, I'd like to have a personal meeting," and he said, "I'll be in Los Angeles next Monday or something, and we can set a time and place," so I did that. So I spent the weekend saying to myself, what kind of Secretary of Labor am I going to be? I know the issues and I have views about them. I knew the emergency dispute issue was going to come, because it was obvious, when the injunction would expire on the longshoremen's strike. I knew my views about racial discrimination in the workplace and so on.

So, my idea was I would go down and I would talk to him and say here's what you're getting, and if you don't like it, it hasn't been announced, and you can just go on to somebody else. So I think Nixon sort of thought, well this is an academic who's a little uneasy about me, but anyway, he went along with all

the things that I said, which turned out well, because for instance, on the emergency dispute issue, we had discussed the issue beforehand, so it wasn't a big shock to him when I came and said what I said. At any rate, we got along fine and I remember the reporters were trying to find out who was going to be in the Cabinet, and I think the *New York Times* was determined to break the story before Nixon did, and I remember a *Times* reporter called me, I was still out here, and the next day was going to be this announcement, so if I was going to get there, I should be getting on an airplane. He said, "Where are you going now?" I said, "I'm going up towards San Francisco." So I told the truth but I didn't reveal. At any rate, I arrive in Washington and the phone rings and it's the same reporter, he says, "Welcome to Washington."

02-01:48:28

Shultz:

But anyway, it was a dramatic night and he says, it's sort of like the Super Bowl. "Now I give you my secretary of this and that." He also did something interesting. He said, "Bring your families, because the next day you're going to be busy and we're going to show Washington to the families in a way they would not be able to see under any other circumstances. But we want to give them the message that we're thinking about them too, not just you, because you'll be busy and we want the families to be part of this and not feel as though suddenly, you're not there anymore."

02-01:49:09

Shultz:

He followed through on that very well.

02-01:49:13

Burnett:

And that also, I mean it's a tribute to your family too, that they were able to roll with these changes, because presumably, you went on leave from Chicago.

02-01:49:27

Shultz:

My wife did a marvelous job. I stayed in Washington. We had leased a furnished house on the Stanford campus. We had rented our house in Chicago furnished, so we bought a house in Washington, had to get our furniture out, sell the Chicago house, extract ourselves from the lease, and she did all that. It was marvelous.

02-01:49:58

Burnett:

Yeah, yeah. So she was the force behind George Shultz, enabling you to focus on the duties.

02-01:50:03

Shultz:

She did a good job. So I stayed in Washington and focused on identifying the people that we wanted to fill the various presidential appointee slots in our Department of Labor.

02-01:50:21

Burnett:

Were you able to pick some of the people you had worked with before?

02-01:50:25

Shultz:

Well, Arnie and I started that way and then we said wait a minute, this is not the way to do it. This is a complicated job and we have to have people with different kinds of experiences. So then we inquired at who's the best management person in this arena, and everybody said it's a fellow named [James D.] Hodgson, who was vice president of Lockheed, but you'll never get him. So we went after him and he accepted. Then I said, we want a union guy, we want a real union guy. We don't want an advisor to unions, we want somebody who gets elected and negotiates contracts and so on, and Jim said, "Well, there's a guy named Bill Usery in the machinists, is just that person." So we got Bill, and I had made friends with George Meany, and so I said well, we're thinking about getting this guy and what do you think of Bill Usery, and he said, "Never heard of him." But then he checked and he said, "I've checked him out, he's okay." So Bill came and joined us and he was wonderful. He turned out to be a gifted mediator, and we built a very strong group of people.

I had a little incident. We had them identified early on, and the President-elect called and said, "Why don't you bring them all to the Pierre Hotel in New York..." where his headquarters were, "...and we'll have a meeting and then you can introduce them to the press. It will show that my administration is making progress, we're doing things." So we gathered there and then we went down to the press and first, I introduced Jim Hodgson, and they asked him questions and he's a real pro and he knocked all the questions off. And then somebody in the back of the room raised his hand and said, "Mr. Hodgson, are you a Republican or a Democrat?" Hodgson said, "I'm a Democrat." I never bothered to ask him. I was not in politics, I was in my field, and it was that way all through.

So then, I go back to my hotel and the phone is ringing off the hook, the Republicans on the Senate Labor Committee saying "didn't you know there was an election?" And so on. But all my guys did really well, and so some people said "you know, we like your people." So the big lesson was competence trumps partisanship. You've got to have competent people.

02-01:52:06

Burnett:

Right, right, that was your first priority. What were your first impressions of the President-elect, now President? The history books typically cast him as not being very interested in the economic side, and being a consummate politician, but not being so interested in the economic side. What was your view on that?

02-01:53:33

Shultz:

My sense of President Nixon was that he was a strategist. For example, if I had gone to him with the longshore emergency dispute and just said we can sort of work our way through this, it wouldn't have had much appeal. But there was a strategy. The over-interventions were ruining the process of private bargaining, and the strategy underlying this tactic was to change that.

That appealed to him. So he was willing to take heat in order to implement a strategy, and I found that, in various ways, all through my time with President Nixon. He was very interested in strategies.

02-01:54:31

Burnett: In your writings, you wrote, I think, in *Turmoil and Triumph*, “The economist is a strategist.”

02-01:54:39

Shultz: Well, economics is a strategy science, because you do something and it takes a while for it to work itself through.

02-01:54:50

Burnett: So it’s not just a tactical response in the immediate—

02-01:54:55

Shultz: The tactic is wage and price controls, and they don’t work. The right way to do it is what doesn’t go so fast but is effective in the long-run, a strategy.

02-01:55:10

Burnett: Right, right. And so you were able to work with him all throughout, but in your time as Secretary of Labor. Where was Arthur Burns at this time, when you became Secretary of Labor?

02-01:55:30

Shultz: He was first counselor in the White House, and then when the—I guess when Bill Martin ended his time as chairman of the Federal Reserve, Arthur became chairman of the Federal Reserve.

02-01:55:50

Burnett: So, your long advocacy of noninterference, with government noninterference with the process of collective bargaining, that became Nixon’s labor policy in effect?

02-01:56:06

Shultz: I was against intervening in labor disputes. Government provided a framework that helped unions get organized, so there wasn’t objection to that.

02-01:56:21

Burnett: Right. But in terms of the disputes, that’s something you’ve long been against, in terms of intervening. I want to figure out when we should talk about this, because this is something that happens fairly early on, I think. The energy taskforce, when does that start?

02-01:56:51

Shultz: I don’t know the precise date, but I was asked to chair a taskforce on the oil import program. President Eisenhower thought that if we imported more than 20 percent of the oil we used, we were asking for trouble in national security terms. So there was a quota system in place and we were bumping up against it, and that was the reason for this Cabinet committee. I got as the staff

director, a guy named Phil Areeda. He was one of the top dogs at the Harvard Law School, probably the only Republican in the Harvard Law School, but anyway, he's a brilliant guy, and he recruited absolutely exceptional staff. Inside of a week, we knew more about this program than anybody else in Washington, and we produced a good report, and we said the problem is the Middle East, and there are all the tensions in the Middle East. So we should reduce our dependence on oil from the Middle East, and we should establish a storage of oil, so we have some insurance if something happens.

02-01:58:15

Burnett: The strategic reserve.

02-01:58:16

Shultz: The strategic reserve. And we should institute a tariff system, instead of a quota system, so the rents come to us rather than to others, and a variety of other things we should do, which seemed obvious. The President thanked me for the report. There were congressional hearings. Nothing was done.

So, when I'm Secretary of the Treasury a few years later, on comes the Arab boycott, which was about what we had predicted, and I became the de facto Secretary of Energy, because there wasn't anybody, so we basically put into effect most of the taskforce recommendations.

02-01:59:01

Burnett: And that is the beginning of your expertise and interest in energy policy?

02-01:59:13

Shultz: Yes. Well, before that, when I was director of the budget [Office of Management and Budget], the President signed the legislation creating the EPA [Environmental Protection Agency]. When a new agency like that is created, they get initial staff and space from other places, and if they don't exist, they get terrible stuff, so the director of OMB becomes their advocate, and we're a pretty good advocate, because we know where the bodies are buried and nobody wants to mess with us. So in the sense, I was the first director of EPA. But one of the things that I was struck by, was a lot of the bright young people that worked for me on the oil import taskforce, came around and they wanted to work for the EPA, and they told me about all the obvious environmental problems around and how they could be worked with, and there was a lot of enthusiasm. So I got a little sense of that. Then I had the Arab oil boycott, and then I had, in the Reagan Administration, the Montreal Protocol.

02-02:00:21

Burnett: And then all the way to your interest in nuclear energy. It's been a theme in your career, to think about where the energy comes from to fuel a modern society. One of the other things that figures in this first job, in the Nixon Administration, is that the Great Society had started a whole bunch of social-assistance programs and income-security programs. One of your jobs in the

first year was to oversee an evaluation of unemployment insurance and welfare programs. Can you talk a little bit about what that was for? Was that meant to reevaluate the...?

02-02:01:33

Shultz:

Well, the welfare program, I've already talked about that.

02-02:01:37

Burnett:

That's what you were talking about.

02-02:01:38

Shultz:

With Pat Moynihan, I worked on that. I worked on the unemployment insurance, but we had a modest revision, designed to strengthen it. I remember the Ways and Means Committee was chaired by Wilbur Mills, he was a giant, and in those days, the Cabinet officer who was sponsoring a piece of legislation was invited to sit in on the committee markup. So I sat in on the markup and questions would come up and I would give answers, and after a while, Wilbur interrupted me, he said, "Mister Secretary, no doubt in your classroom, you got your way, but around here we compromise." And then he would point out, to members of his committee, Republicans and Democrats, you know if this happens in your district, you have such and such, and here's going to be the impact, have you thought about that? He was a genius, and eventually, the legislation got through, but anyway, it was an education on the Ways and Means Committee and Wilbur Mills. I got to be a friend of his.

02-02:02:55

Burnett:

It must have been a very steep learning curve for you. You had worked at the Council of Economic Advisors, you're a student and an expert of large, highly complex social-technical systems, and this is a whole different game.

02-02:03:24

Shultz:

No. I knew the substance of the subject matter well and I knew the Department of Labor, because in the Kennedy Administration, I was asked to come and do a report on the employment service and how it worked and what they could do, and I was part of their labor-management committee, so I felt, in the substantive arena, I was well-equipped. But I didn't know anything about politics, didn't know about how you deal with the Congress. I didn't know about the Washington Press Corps. So all of those things I had to learn, and I was lucky to be able to learn it from a substantive base that I was solid on.

I remember, there was a guy named Herb Klein, who was Nixon's press person, and he called me and said, "You have a slot on the press and there's this terrific woman in Los Angeles who would be good in it," and I thought to myself, a woman in Los Angeles doesn't know any more about the Washington Press Corps than I do. Then, I found a guy named Joe Loftus, who wrote for the *New York Times*, labor things, and he was terrific. Everybody respected him, he was a real pro. So I called him and to my delight

and surprise, he was interested. I guess he'd been doing what he was doing for almost thirty years and this would be something different. So he came over and he said, "Well, I'll do it but I have conditions." I said, "What are your conditions?" He said, "First of all, I have to be able to go into any meeting, any time, and know what's going on." I said, "Joe, you'd be welcome, because you'd make a contribution, but why?" He said, "If I'm going to be your press spokesman, I cannot be blindsided. That doesn't mean I spill my guts all the time, but it means I have to know what's going on, so I don't deny something that turns out to be going on. So that's number one." I said, "Okay, what else do you have?" He said, "Don't lie." I said, "Come on, I don't lie," he said, "You'd be surprised what happens to people. They get under pressure and they come down here, and maybe they don't lie but they mislead. You can't do that. You've got to have a reputation for being dead honest." And then he said, "If a reporter is working on a story, I'll help him." I said, "Well, why? Why are you doing that?" He said, "Well, you don't realize it, but whether you like it or not, what the reporters are writing is what the public thinks you're doing. So you have a stake, and I'll help them be accurate. I mean, they write their own stories, but at least we'll try to get them to be accurate." Don't have an antagonistic attitude toward the press. That was a big important lesson for me. He had a number of things, I called them Loftus laws, and I wrote them up in my *Turmoil and Triumph*.

02-02:06:29

Burnett:

Right, right. Do you think things have changed quite a bit since then? It's hard to imagine someone giving press-management advice, saying you have to be honest.

02-02:06:45

Shultz:

No, I think it's as true today as anything, and I think that in all these relationships, in dealing with the Congress or dealing with other countries or whatever you're doing, that you want to establish the reputation as a person who is honest and who does what he or she says you're going to do. Then people can trust you.

One of the things I learned from a guy named Bryce Harlow, who was a congressional person and what he taught me when I was trying to learn how to deal with the Congress, he said, "Trust is the coin of the realm." So, if you promise to do something, be sure you do it.

02-02:07:27

Burnett:

It's kind of the opposite of Machiavelli, who said, "It's more important to seem than to be," and your advice is just be, just be honest.

02-02:07:37

Shultz:

Well, it was a version of a lesson I learned in boot camp in the Marine Corps, when I was handed my rifle. Never point this rifle at anybody unless you're willing to pull the trigger. No empty threats. Do what you say you're going to do.

02-02:07:54

Burnett:

Right, right. So the longshoremen strike was a policy shift for the new Nixon Administration. Did you have to handle blowback from that, or was there no blowback?

02-02:08:14

Shultz:

Well, there was a lot of pressure on the President to intervene, which he didn't do, and that eventually enabled me to do what I said would happen, namely get the dispute settled, and once it was settled, there was a big message out there; the party was over. It's going to be a different set of arrangements, and that worked. I think one of the things that helped me was that Nixon saw that the strategy worked, so it gave me a certain credibility.

02-02:08:51

Burnett:

Did you think that you were going to serve your year as Secretary of Labor, and then go back to—because you had gone from, you were Dean of the Graduate School of Business and took a one-year academic leave to go to Stanford for a year.

02-02:09:14

Shultz:

It was not Stanford; it was the Center for Advanced Studies.

02-02:09:17

Burnett:

The Center for Advanced Studies. So then you had one year and then—and you agreed to be part of this.

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Shultz:

No, I had to resign as Dean and be Secretary of Labor.

02-02:09:37

Burnett:

Okay. So there was no leave or anything like that, it was just a clean break.

02-02:09:41

Shultz:

Well, I think I was on leave from the University of Chicago but not as Dean.

02-02:09:45

Burnett:

Right, right. And so, did you think you were going to return to the academy immediately after that, or did things just snowball from there for you?

02-02:10:02

Shultz:

Well, I entered the job of Secretary of Labor, wanting to do that job. I wasn't thinking about what I would do next. Then, the OMB was created and the President asked me to be its first director, so I did that for two years, and then he invited me to be Secretary of Treasury. So I had all three of those jobs, and when I left, I got offered a number of chairs at universities and I said, "I've been working hard, I don't want a chair, I want a couch." [Burnett laughs] And then I said to myself, you know, I've had an academic career. I've taught classes, written books, been a Dean, now I've had a government career. Why don't I try business? So I got a lot of nice offers and the one I liked best was

from Steve Bechtel, to join the Bechtel Company. It was a private company, located in San Francisco.

02-02:11:01

Burnett: That's right.

02-02:11:02

Shultz: And since we'd had a brief period out here, my family was very pleased, because living out here is so terrific. So, we rented a house on campus and then R.J. Miller was the Dean of the business school, and he invited me to be a part-time professor, which was all right with the Bechtels.

02-02:11:25

Burnett: Right, great.

02-02:11:27

Shultz: That enabled me to buy a house on the campus, which I still have.

02-02:11:36

Burnett: We're getting a bit ahead here, but I did want to just cover some of that. When you became director of OMB, and I think we'll probably talk about that next time, there was—it wasn't a completely new organization. There was a Bureau of the Budget.

02-02:11:57

Shultz: No, there was the Bureau of the Budget there, and that was the essence of the OMB. What was added was a responsibility for thinking about management issues in the government, that's what—Nixon wanted more of that.

02-02:12:13

Burnett: Can you explain that a bit more?

02-02:12:16

Shultz: Well, Nixon was convinced that the government would work better if it were managed better, and part of that was organization, part of that was people, but also there were some things about management that we could do better. So he made a proposal, and at that time, left over from the Hoover Commission; a president could make a proposal to the Congress for reorganization within certain limits, and if the Congress didn't act within a certain period of time, they took effect. So, one of his proposals was to have an Office of Management and Budget, that would take on the responsibilities of the old Bureau of the Budget, and add an M to the B.

02-02:13:10

Burnett: And that had a long legacy. What was some of the work that was involved in creating this new bureau and making it effective?

02-02:13:24

Shultz: Well, we had to think about how do we implement the M. The B was there. I got Arnie Weber to come over, and he was the first M in OMB, and one of the

things we learned, realized, was that the only way you're going to be effective is to work through the budget examiners, because the way the Budget Bureau worked, there were budget examiners for each department and components of the departments, and they're the people who work with the departments in setting the budget. So they're the ones who knew how things were working and they're the ones who had clout and could get something done. So, we sort of merged the things together and got ideas for what could be done better and tried to get them into effect.

02-02:14:24

Burnett:

And would you say that the basic lessons from that experience were covered in your book, *Economic Policy: Beyond the Headlines*, or are there other things?

02-02:14:32

Shultz:

I think we have something on that in there. Nixon, he had me into the Oval Office and he said, "Your predecessor, the fellow who ran the Bureau of the Budget, thought it was his budget, and I thought it was my budget. So I'm now fixing up for you, a suite, on the second floor of the West Wing of the White House, and there will be an office there for you, a deputy, there will be a reception and then there will be a nice office for you, and I want you to have your meetings there. So, people, the physical place makes an impact, and if your office isn't big enough for a meeting, use the Roosevelt Room, but bring people here to the White House." So I was there, and [Caspar] Cap Weinberger, who was my deputy, occupied the traditional director's office, and that's the way we worked.

02-02:15:37

Burnett:

Can you talk a little bit about Caspar Weinberger? Did you meet him for the first time?

02-02:15:44

Shultz:

Yes. I didn't know him before, but he was very good. He was ready to roll up his sleeves and get into the details of all these things, so we worked well together.

02-02:15:55

Burnett:

Right, right. I think a lot of the analysis and theory of the folks who were working under the aegis of Chicago economics are concerned with the role of the state. You know, Friedrich Hayek's *Road to Serfdom* is the "ultimate anti-planning polemic," that's what one historian described it as. And here you are, now working in government, and face to face with the challenges of essentially government organization and management. What was completely expected, unsurprising, and what were some things that were unexpected, that you didn't know before you got in to the Secretary of Labor and in the other positions as well?

02-02:16:58

Shultz:

Well, the thing that I didn't know anything about were how to deal with Congress, how to deal with the Washington Press Corps, and generally, the political environment as politics. So I had to come to grips with all those things.

02-02:17:15

Burnett:

Did you have—what was your takeaway in terms of understanding the powers and limitations of government, when you were serving there?

02-02:17:38

Shultz:

Well it's obvious. Government is necessary. I mean, you can think the government goes too far, you don't like this or that, but try living in a place where there's no government. That's what's happening in the Middle East right now. So, government is necessary. The point is to do it well and to do it in a way that works, that is, which encourages the private sector and the incentives that you want to be productive.

So, in OMB, one of the things we were worried about was can we have a regulatory process that does the job but nevertheless, doesn't stifle the initiative.

02-02:18:22

Burnett:

And that is a key challenge, absolutely.

02-02:18:24

Shultz:

Yeah, it's still very much today.

[End of Interview]

Interview #3 September 28, 2015

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03-00:00:03

Burnett: This is Paul Burnett, interviewing George P. Shultz, for the Economists Life Stories project, with the Oral History Center at the University of California, Berkeley, in conjunction with the Becker Friedman Institute. It's September twenty-eighth, and this is our third session. Let's begin by picking up where we last left off. You were introducing your time as Secretary of Labor, and this is in 1969. I wonder if you could talk a little bit about a couple of the things that you did. You had a number of activities when you were Secretary of Labor. According to one historian, you reorganized the Job Corps. Can you talk a little bit about that?

03-00:01:03

Shultz: We reorganized it. Arnold Weber and I had a lot of experience with retraining type problems, because we both worked together at the Armour Automation Fund Committee, which I was cochairman of. We did retraining and we broke a lot of ground on how to do it, so we had some credibility. We didn't abolish the Job Corps, we changed it, and some camps were doing better than others and the ones that weren't doing well, we closed and put the money towards the ones that were doing well. So I think on the whole, people regarded it as a successful rearrangement and it's a good program.

03-00:01:43

Burnett: And just for our listeners, what was the Job Corps actually, what did it do?

03-00:01:48

Shultz: Job Corps was a place where people could go and be in residence and be trained for useful employment. Over time, views of what is useful retraining changes, and if you go and train somebody sort of in the abstract, it's not as effective as if it's concentrated and people could be somewhere. That was the Job Corps. But then subsequently, as a result of something I did with President Johnson, that really came through to me, how important it is to be on an actual job and see the prospect of a job.

I also had experience at the University of Chicago. I found that in our downtown program, which was one for students who were working and they came at night, we had a number of black students who did the work fine, but we didn't have any on our campus program, and there were no applicants.

03-00:02:56

Burnett: Right.

03-00:02:57

Shultz: So I went around to colleges where there were big black populations and asked, why isn't anybody applying? The answer was always the same; the tuition cost is too high and we don't think there's a job at the end of the

rainbow. So I got quite a few, five, six, seven, companies with names that were recognizable, to give a fellowship and a guarantee of a job, between the first and second year. It wasn't required that person take the job, but it was a statement that there is a job available.

03-00:03:35

Shultz:

And then we started getting very good applicants, so it worked. So I worked in that arena quite a bit.

03-00:03:44

Burnett:

And I understand there was some continuation of your mediation expertise. You mediated a hospital strike, is that right, during your time as Secretary of Labor?

03-00:03:54

Shultz:

Well, I had the good fortune, we set out, in the Labor Department, to recruit a diversity of people with different experiences, and among those, I wanted a real union guy, somebody who got elected, negotiated contracts, sold them to the rank and file. Not an advisor but a person who was in the arena. And so we managed to get a guy named Bill Usery, from the machinists union. He turned out to be a genius at mediation, so when we had a real tough thing, I'd get Bill, and I worked together with Bill, but he did the labor more. We had quite a few tough situations which we managed to get resolved.

03-00:04:40

Burnett:

Of course at this time, labor unions I think are at their peak as a percentage of the American workforce, right at this time they peak, and so they're an important political constituency to every president at that time and even now. Did you talk to President Nixon about, or did he speak with you, rather, about the labor constituency, and to do analysis about that constituency and how politically important they were?

03-00:05:17

Shultz:

We didn't have to do any analysis, it was pretty obvious, the labor unions were an important component of the labor force, and the top people I knew, and I got to know more and more. I knew George Meany, who was the head, I knew Walter Reuther, who was the head of the autoworkers. Lane Kirkland was the number two guy. We formed a labor-management committee and we had some outstanding management people on it: Steve Bechtel, Walt Wriston, head of General Motors, the head of General Electric, top people. We had some really good meetings and from the President's standpoint, he was very content with that, and of course Meany, Kirkland and others were very strong anticommunists, and they were very helpful on that side of life.

But Meany, it was interesting how skillful he was. If the White House called to get him to come over for something he'd say, "I respond to Shultz. If you want me, call Shultz." That sort of built up my stature, which was his very shrewd way of getting a Secretary of Labor to be somebody influential.

03-00:06:47

Burnett: Right.

03-00:06:48

Shultz: We worked together very well and became good friends, played golf together.

03-00:06:56

Burnett: And of course there is so much going on in terms of inflation, which is growing during the 1960s, and there are concerns. Obviously, Vietnam is a huge factor in that, and the Great Society programs are a factor in that. Others are accusing labor of making excessive demands. Was that part of the labor-management committee's purview, to handle some of those tensions?

03-00:07:33

Shultz: We didn't try to handle non-labor-oriented type issues. We tried to handle the ones that were having to do with the workplace. I learned, in the [Richard M.] Nixon administration, the importance of being able to say "no," because when we took office, there was a strike going on, of the longshoremen. Did we cover this the last time?

03-00:07:57

Burnett: We did talk about this last time, that's right.

03-00:08:00

Shultz: Okay, so I don't need to repeat that, but I said no and it worked. Then, by a roll of the dice, I had a "no" that stuck when I was Director of the Budget, because the Penn Central Company, was a big company, was badly mismanaging its affairs, it was going bankrupt. Arthur Burns, who was head of the Federal Reserve and a man of great skill, thought it would be very bad for the financial community if that happened, and he had arranged a bailout, which I thought was a bad idea, so I'm arguing against it. Half of me is saying "what am I doing, arguing with Arthur Burns about financial markets?" But anyway, I made my arguments.

At a critical time, a guy named Bryce Harlow comes in. Bryce was the world's best political counselor, and he says, "Mr. President, in its infinite wisdom, the Penn Central has just hired your old law firm to represent them in this matter. Under these circumstances, you can't touch this with a ten-foot pole." So there was no bailout, Penn Central failed, and it wasn't bad for the financial system, it was good for the financial system, because other people had to say "hey, they didn't bail them out; we'd better watch our own situation and be more careful."

So these were two 'no's.' They worked. The first one I was lucky, but then later on, when I was Director of the Budget, came the push for wage and price controls, and I fought that very hard. That's a battle I lost and the country paid a heavy price for that.

03-00:09:49

Burnett:

I'd like to talk about that in some detail. Before we get there, because you did a number of these jobs for Nixon, there was the Cabinet Committee on School Desegregation. Did you want to talk about that? You mentioned it last time but we didn't talk about it too much.

03-00:10:15

Shultz:

I had a history of working on racial issues. I had the experience at the University of Chicago, I had the experience of the Armour Automation Fund Committee, and I could see very clearly, how real discrimination was. We had an incident in Armour, when they were building a new plant. Did we talk about this?

03-00:10:44

Burnett:

We did talk about that, that's right, yeah.

03-00:10:45

Shultz:

So that was an experience in having something happen successfully, that people thought was impossible. We did it by working at it, by using common sense, by having the confidence that if you worked at it, somehow you could get people together. So, when President Nixon decided to desegregate the schools in seven southern states, this is sixteen years after the Brown [*Brown v. Board of Education*] decision, so for all these years it had been unconstitutional. So he stepped up to that decision and he decided to have a cabinet committee manage the process, not just do it. You had to work on it. So he made Vice President Agnew the chairman and me the vice chairman. Agnew would have nothing to do with the subject, so I became the chairman.

I had Pat Moynihan to work with, he's the counselor in the White House at the time, a lawyer named Len Garment, and a very savvy former advance man named Ed Morgan, and we worked on it. It was one of the most interesting things I think I ever was involved in. We decided to have biracial committees in each state. With the President, we said we're not interested in the politics of these people. We just want strong, respected people, who when they say something, people in their community will pay attention.

So we managed to recruit in each state, seven states, and everybody thought Mississippi would be the hardest one, so they were the first one. We had them all come up to Washington, took them into the Roosevelt Room. I used my experience in the labor-management field. I knew they've got to blow off steam a little bit, so I let them blow off steam, and after they got it out of their systems, you know, the white people saying this is a lousy idea and the blacks the other way around, I called in the Attorney General by prearrangement, and said what are you going to do when the schools open? "We'll enforce the law." "Thank you." Out. So I was able to say "it's been an interesting discussion this morning, but it's irrelevant. It's going to happen."

03-00:13:06

Burnett:

Right.

03-00:13:07

Shultz:

So the only question is, what are the problems and what can be done about them? Because I'd learned in my labor-management work, when people argue on principle, you never can get anywhere, but if you get them to talk about problems, then they begin to get somewhere. So, what about the violence, what about the quality of the education? These are your communities, your schools, these are your children. Gradually, they began to talk about problems. Then I took them over to the Diplomatic Reception Room, where Thomas Jefferson designed and built a desk on which he wrote portions of the Declaration of Independence, "All men are created equal." So, we had a good lunch and there I sat with two people, I thought—one black, one white—would be ideal to be the cochairmen of the committee.

I remember, we were all getting to an agreement and I got up and left, and there was a lawyer from the Justice Department who was very critical, "Why did you leave?" I said, "You don't get it. If I'm there, what they agree to will be my agreement. If I leave and they agree to something, it's their agreement." It's much more important that it be their agreement, because then they will really want to carry it out. So anyway, we came back and they were really into it. By prearrangement, we went across the hall, into the Oval Office, and President Nixon sat them down and he said, "Here we are in the Oval Office. Think of the decisions that have been made here that affect the security and wealth of our country. Now we have this major issue. I've made my decision. But that's not enough in a country like ours. People throughout the states and the communities have to make their decisions. Now, we want to work with you to see that we don't have violence when it came to schools." And they discussed and they went out on cloud nine, and then we worked with them. The same in the other states.

The last state was Louisiana, so by this time Pat and I are very confident we can bring this off. So we go to the President and say "Mr. President, we'll do the Louisiana group and we'll get it done by early afternoon, and then we'll have all the cochairmen from each of the states come and we can have an overall meeting, and that will be sort of a kickoff to the school year." So the President calls a meeting in the Oval Office, I make my suggestion, and Vice President Agnew says, "Mr. President, don't go. There you'll be in a room, half the people will be black; half the people will be white. There's going to be blood running through the streets of the South. You go and the blood will be on your hands. Don't go." The President looked at me, and I said, "Well, Mr. President, whatever happens, it's on your watch. We've had strong people come up here and you've met with them, inspired them, and they haven't been idle, they've been working, and I think you ought to go." So he went.

So Len and Pat and I go down the night before and we start meeting with the Louisiana group and it's harder going. I'm saying to myself, it's one thing to bring people to the White House; it's another thing to meet in a hotel room in their hometown. It's different. But we got them pretty good. The President arrives and I have to go out and tell him they're not quite there yet, "Mr. President, you're going to have to put this over," which he did, and he did a good job.

Then we had the meeting of all the cochairmen and it was like a revival meeting. Everybody had been working on it and they shared problems, shared things they were going to do. It was really inspiring. Then, as we went around to the various television places and said, "if a hundred schools open and there's violence at one, what's the story? We think the story is schools opened peacefully. Got it?"

03-00:17:23

Burnett:

Right.

03-00:17:25

Shultz:

So, actually, the schools all opened peacefully, it was a miracle. It was very interesting, to see this unfold.

03-00:17:36

Burnett:

So there was a shepherding of the democratic dialogue, because this was going to happen and it was an enforcement of the law, but within that, people needed to talk about what that would mean in each locality.

03-00:17:49

Shultz:

Well the idea was that you—and I think I've seen this quite a few times. You have some big racial thing and everybody says it's impossible. And you work at it and you try to think it through, analyze what's going on, and then get people together and have a dialogue about it and appeal to common sense, and gradually, you get somewhere. I had that experience in the Armour case, I had it in the school desegregation case, I had it in the University of Chicago case, and I'm convinced that the key is common sense, confidence that people will work together once they get a chance. Of course, you have to see what is the problem and how you're going to address it.

03-00:18:35

Burnett:

Right, right, absolutely. So during this time, you're working with President Nixon and you're Secretary of Labor. The Secretary of Labor, according to one historian, is usually fairly remote from decision-making on the larger economy. But you very quickly become a force of counsel and advice to the President, it seems. Your reputation—and I'm quoting here, "A quiet consensus builder, cool under pressure, someone who gets things done." Obviously the larger set of issues in terms of the economy as a whole, there were concerns. At the end of the Johnson administration, there was a tax surcharge in order to cool down the economy, and inflation increased, and that

wasn't supposed to happen according to the economic mandarins of the day. Can you talk a little bit about how your advice, your framework for what should be done in terms of managing this growing economic crisis, how that developed, and any links with Chicago figures as well, who were involved? Friedman was obviously involved and promoting his view of what should be done. Can you talk a little bit about how that unfolded while you were Secretary of Labor?

03-00:20:35

Shultz:

My background, as people knew, was that of somebody who had studied economics. And I was a rather unusual person, because I had gotten my PhD and had been on the faculty, for a long time, at MIT, and then at the University of Chicago, sort of two different schools, but I respected people in both. During my time at Chicago, the Council of Economic Advisers developed what they called guidelines. People were preoccupied with inflation and so they said well, the way to do is to have guidelines for how much you can increase prices. I thought to myself, this is a precursor to wage and price controls, they were setting the intellectual framework. So I was very uneasy about the guidelines and I promoted a conference at the University of Chicago, with a colleague named Robert Aliber. Milton Friedman came, Bob Solow came, from MIT, and the title of his talk was, "The Case Against the Case Against the Guidelines."

03-00:21:47

Burnett:

That's right [laughter].

03-00:21:49

Shultz:

Bob was terrific and fun. Anyway, we published a book, so the subject was very much on my mind. Particularly, when I became Director of the Budget, it was more in my alley than when I was at the Labor Department, although it wasn't my main responsibility. So, I worried about it, I made a speech called, "Steady as you Go," and the argument of the speech was kind of classic economics, that, we have the budget under control. If we can have a steady monetary policy and you have a little patience, gradually prices will come under control and the economy would turn around. And it was beginning to happen, but not fast enough to suit people, but I made that case. Then, John Connolly came. He was a very, "get out and do things"-type guy, charming.

03-00:22:58

Shultz:

The President liked him a lot. There were lots of IOUs out there, that is, we were ready to redeem dollars for \$35 an ounce of gold, and there were a lot of dollars out there and there started to be, what you might call, a run on the bank. So, we had to close the gold window. Nobody had ever heard of it. I remember Bill Safire, we were going to work on a speech and he said, "People say in hushed tones, close the gold window." He said, "I didn't know what that meant, but it must be very important." But anyway, what it meant was that the dollar would basically float, and people said if that happens it will be another inflationary tendency. I thought they were overestimating it and I

fought against it, but there was a New Economic Policy consisting of wage and price controls, the end of the tie to gold, and some tariff increases as I remember. Connolly was taking on the world and I thought it was a bad mistake, but anyway it happened.

I remember, when I was Director of the Budget, I would ask the Treasury people what's their plan for the exchange-rate system and they said it was a secret. So I said okay. Then I became Secretary of the Treasury and I said, "Okay, what's the plan?" They said, "We don't have one," and I said, "That's what I thought." So, I spent the summer, after I became Secretary of Treasury, getting all the people in the U.S. Government onboard, developing a plan for our proposal for the exchange-rate system. I remember taking it to President Nixon, and he was scheduled to talk to the big World Bank/ IMF meetings that would take place, and [where] the financial people from all over the world, public and private come. I said, "Here's your speech," and he looked at it and he said, "This isn't my speech, this is your speech." So he spoke before me and he said, "And tomorrow, my Secretary of Treasury will unveil the U.S. plan." So it was a big hype for my speech, but this is my first introduction into international diplomacy really. But I invited, one by one, the key finance ministers of the world: Germany, France, Japan, the UK. I said, "Here's the speech I'm going to make tomorrow, and I'd be interested in any suggestions." Nobody touched the basic conceptual structure. They all made subtle changes in the wording, which I was able to take and it made it go down a little better. I later learned nothing like that had ever been done before, and over time, that little group would meet and the other people in the G20 didn't want to know that we met, but they wanted us to meet, one of those kind of things.

03-00:26:13

Burnett:

Right, okay.

03-00:26:14

Shultz:

So we would meet fairly regularly, and our first meeting was on a Sunday before a big IMF/ World Bank meeting, and I cleared it with the President and he said, "I'm going to be out of town this weekend, so why don't you give your meeting a little class and meet in the White House." So we met in the library of the White House and we were looking for something to call this group, so we decided to call it the Library Group, because that wouldn't connote any particular substance. And so gradually that formed, and a group of five countries came into being, and it was impressive because we got a lot done and we got changes made.

It was interesting to me, because after I left office, I got a call from Henry Kissinger saying, "Helmut Schmidt and Giscard d'Estaing in Germany and France, want to create, on a head-of-state level, the same thing you did with finance ministers. They had both been finance ministers, and we don't know what to make of it. Would you go around and find out what they are up to?" So I went around. First I went to Germany, with Helmut Schmidt, and these

are all good friends. Then I went to Japan and I went to the UK and I went to France. I'm sitting with Giscard in the Élysée Palace and Helmut Schmidt calls up and he says, "Why don't the three of us get together for dinner tonight?" So we did and I went to a place in Paris where there's an apartment of a friend of mine, where I could be sure the phones weren't bugged. Mostly they bugged the hotels. I called in and I said "I'm at this number and here's what I've done. I think this is a good thing; people are enthusiastic. I have this meeting tonight. I can turn it on or I can turn it off, or I can leave it in neutral. I'll stay by this telephone and get some instructions. What do you want?"

So a couple of hours later the phone rings and they say go ahead. So in that peculiar way, it started what became the Group of Seven, because it had gotten from five to seven, because the Europeans said we've got to have Italy, and so we said, well then we have to have Canada. But it worked pretty well for a while.

03-00:29:50

Burnett:

Wow. When was that approximately, that meeting that you had in Paris? What year was that? That was after you had left office?

03-00:29:02

Shultz:

Well, we'd had a Paris meeting where the international exchange-rate system was basically agreed upon, how it would work. Then I left office in probably 1975 some time, I don't remember exactly.

03-00:29:20

Burnett:

Yeah, because you left office in May of '74, I think. So, just to back up a little bit, could you talk a little bit about, there were a lot of fears about—well, just to back up to before we get to floating exchange rates. On the idea of how to manage the economy, there were some differences of opinion it seemed, even in '70, '71. Could you talk a bit about the Council of Economic Advisers and who's there? It's Herbert Stein and Paul McCracken, is that right?

03-00:30:10

Shultz:

Herb was there, Marina [V.N.] Whitman was there. She was more of the international person. I'd known her reasonably well before, and I knew Paul a little bit, so I knew those people, excellent people, good economists.

03-00:30:31

Burnett:

Back in even as far—there was some controversy—Milton Friedman was upset with the way things were going and apparently, you were not so happy either. This is around October of 1969, there's a Cabinet Committee on Economic Policy. Can you talk about the Cabinet Committee on Economic Policy? That was just a normal committee that met and there were members of the troika there, is that how that worked?

03-00:31:11

Shultz:

I don't have a sharp memory of it but typically, the Secretary of Treasury, the Director of the Budget and the Chairman of the Council of Economic

Advisers was called the troika, and they were basically set to advise the President on economic policy. The Labor Department and Commerce Department were yelling a little bit, feeling left out. So a Cabinet committee gets formed to deal with that issue, so everybody had a chance to have their say. That was the idea.

03-00:31:44

Burnett:

Right, right. This is the time when William McChesney Martin is head of the Federal Reserve, and he was really holding on to a very tight money policy. There were other Chicago folks, like Milton Friedman, saying this is too restrictive and this is not the gradualism that was part of the original idea of economic policy under the Nixon administration. I think shortly after that meeting, President Nixon replaces Martin with Arthur Burns, at the Federal Reserve. But the story that historians tell is that there's a lot of differing opinions, even of fairly like-minded people. This is not people with completely diametrically opposed views of how an economy should be run, they're fairly close in their understanding of things. It was a fairly tense time it seemed.

03-00:32:59

Shultz:

Well you have to remember that in Nixon's first run for the presidency, at the end of the Eisenhower administration, there was a very tight money policy, and Nixon blamed part of his problem of not winning that election on it. So he was very alert to that subject. Chairman Martin was a tough guy and he thought his job was to keep inflation out of the economy, and he did. He was an independent guy and you could talk to him, but he'd make up his own mind, whereas Arthur Burns was a very close friend of Nixon's, not that he would take orders from the President, and he was counselor to the President all through the early parts of his presidency, and it was kind of understood that when Martin retired, Burns would get that job, and he was well equipped for it.

03-00:34:04

Burnett:

I understand, from the history books, that Nixon expected him to be a bit more compliant than he actually ended up being.

03-00:34:12

Shultz:

Well, Arthur became enamored of the guidelines, so I gradually developed a big difference of opinion with him, because I thought the guidelines were a mistake and we'd wind up with wage and price controls if we weren't careful, which is exactly what happened.

03-00:34:33

Burnett:

Why do you think Arthur Burns took that position? It seems like an un-Burns-like position, to be in support of guidelines.

03-00:34:48

Shultz:

Well, I don't know, Arthur was a very strong person and he felt he could manage whatever it was that came along, as long as he had effective influence. That's the kind of thing that gets out of everybody's control.

03-00:35:09

Burnett:

Yes. Herbert Stein, who was also—he was a Chicago graduate I think, in '58.

03-00:35:17

Shultz:

He had a lot of Chicago in him. He was a good friend of mine. Herb and I saw the world pretty much the same way.

03-00:35:23

Burnett:

Right. He was President Nixon's, I think the phrase was "budget theoretician." He and others in the CEA came up with a kind of rule for surpluses. This is the advice they're giving, "a moderate, predictable budget surplus in normal times." Some of the other things they proposed were new taxes, perhaps even a European-style value-added tax.

03-00:36:02

Shultz:

I don't think a value-added tax ever had much chance.

03-00:36:10

Burnett:

So, certain things that seemed kind of out of left field, they just never really got much traction, but did you have a position on the budget-surplus angle? Was that something that you were concerned about? Burns, for his part, wanted a tight budget, definitely just balance the budget, that was the approach.

03-00:36:39

Shultz:

When I became Director of the Budget, we had a good control of the budget, and it was on that basis that I argued in my "Steady as you Go" speech, we had the budget under control with a steady, sensible monetary policy, inflation would come down. You just had to have the patience to allow that to happen.

03-00:37:08

Burnett:

Were you influenced by Milton Friedman's advocacy on that or his opinions on that? Did you talk or correspond with him about those issues?

03-00:37:18

Shultz:

I talked to Milton quite a lot, all the way through. He was very helpful. The "Steady as you Go" speech is something that I worked out, and actually he picked up on it and supported the idea.

03-00:37:37

Burnett:

He was writing columns, I think, in the newspapers.

03-00:37:40

Shultz:

Yes.

03-00:37:42

Burnett:

He was an advocate. I think he was also corresponding directly with the President, he was writing directly to President Nixon, trying to influence him. So it seems that there were a number of folks with a kind of Chicago orientation, who were actively trying to shape things. But there was a lot of—it seems that there was a lot of resistance. For President Nixon, he was a politician and he was worried about not getting—

03-00:38:20

Shultz:

Well, what happened was an atmospheric change in inflation, and businessmen went from the Business Council, I remember, and sat in the Cabinet Room with the President and argued for wage controls, wage, not price controls, wage controls. I thought these people are crazy, but anyway they did, and the Congress enacted a piece of legislation that gave the President the power to establish wage and price controls, by way of saying okay, we've given him the power and if there's inflation it's his problem, not ours.

03-00:39:00

Burnett:

Right, right.

03-00:39:02

Shultz:

People were getting into the wage-and-price-control frame of mind and Connolly comes along and he's a very activist-type guy, and so we wound up with wage and price controls, and they lasted. Do you remember Jimmy Carter's gas lines?

03-00:39:23

Burnett:

Yes. Not personally, but yes, that was something, when you published a book in '77, you were talking about how this was having an effect on the economy. We talked a little bit about this last time. You're the first Director of the Office of *Management* and Budget, in July, 1970 you take over. Did President Nixon talk to you about the outgoing budget director? Was there a problem?

03-00:40:06

Shultz:

President Nixon called me to the Oval Office, the two of us, as I was getting ready for the new job, and he said, "Your predecessor of the old Bureau of the Budget, Bob Mayo, somehow thought it was his budget, and I always thought it was my budget. So I'm arranging a nice suite of offices for you in the White House West Wing, and have your meetings there, and if the meeting is too big for your office, hold it in the Roosevelt Room, because the proximity of where stuff takes place has an impact on people's attitudes." So I did that. I had a nice suite of offices. I had a reception place, the best suite in the White House West Wing. There was a place for a deputy and a large office of my own, with a fireplace, it was nice. They bring you flowers every morning. It was a big deal. But then, when Nixon had an idea, it was a good idea, for how the government should be organized, that the Cabinet would be looked upon by the President as his staff, and he'd make policy in various areas by groupings in the Cabinet, and the Cabinet, therefore, would be much more involved with

the President, instead of White House staff. There was one on economic policy and when I became Secretary of the Treasury he said, "Also be Assistant to the President for Economic Policy and keep your office in the White House, and when you're having government meetings, you'll have them there," and of course the Treasurer is in the Treasury. So actually, that worked quite well.

(pause in recording)

03-00:41:57

Burnett: We were talking about your move to be Director of the Office of Management and Budget, in July of 1970. Again, according to the history books, Allen Matusow's in particular, "Nixon hoped that Shultz would take over economic policy," that you would become—and this is another historian who suggested this—you became unofficial head of the troika. How does that sit with you, that analysis?

03-00:42:39

Shultz: I don't think so. When John Connolly came, he was a very dominant figure. And Nixon, we all, liked him because he was a great public face for whatever you were doing. He was telegenic and he was a former governor of Texas. So "big Texas" comes to the White House. He was less interested in content than he was presentation. I remember a conversation I heard him have with Ron Ziegler, who was the Press Secretary. Ron was asking him how he wanted something presented and he said, "Ron, I can sell it flat or I can sell it round, just tell me."

03-00:43:27

Burnett: Well, it helps to have that level of confidence, when you've got a number of thorny economic policies to work out with various different constituencies. There were again, debates about how much growth in the money supply was necessary to get the economy moving, and it seems, you had this "steady as you go" approach, and you seemed to be right in sync with Milton Friedman's advice. Did you ever disagree with what Milton Friedman thought of the economic policy of the nation?

03-00:44:11

Shultz: No, I thought it was right if we have a steady monetary policy with an increase in the quantity of money consistent with economic expansion and low inflation, that that was right, and if we had the budget under control, then be steady as you go, that the economy would turn out okay.

03-00:44:38

Burnett: Again, according to historians, what apparently happened is either the Fed or the CEA in its advice, would either advocate too much increase in the money supply. I think in '70, when the recession really began to bite, they're pushing for 8 percent growth in the money supply, and what you end up is kind of a whipsaw effect, that there's too much [growth in the money supply], and

there's a lag in the effect of monetary policy. Is that something that was part of your position?

03-00:45:11

Shultz:

Well, I don't remember the 8 percent business, but it's obviously true, everybody knows that monetary policy acts with a lag. I've always thought one of the things you learned when you take economics, is strategy, because with most things in economics, you do something today and it doesn't take effect until some later time. In other words, you have to think strategically. It's a good habit to get into.

03-00:45:37

Burnett:

That's right. But what's surprising is that these are—I mean, there are a lot of economic experts and they're not seeing that lag or it's just considered to be an expedient political policy.

03-00:45:52

Shultz:

Well, politicians are impatient, and I coined the phrase, “an economist's lag is a politician's nightmare.”

03-00:46:00

Burnett:

Right, exactly. So, we're talking about price controls. When you introduce the subject in your book with Kenneth Dam, and we'll talk about that later, *Economic Policy Beyond the Headlines*, you provide some reflection and assessment of those years and some general conclusions that you draw from them. Your assessment of price controls was that this was part of what you called the “administered price school of thought,” and so that's all the way back to the kind of U.S. Keynesians, proto-Keynesians like Gardiner Means, for example, all the way to the range of Keynesian approaches in the postwar world. The basic idea was that if you—

03-00:47:13

Shultz:

I was never impressed with the idea of price controls, however described.

03-00:47:22

Burnett:

Right, right. And so part of this is this idea that the large units of the economy, the corporations and the large unions, they administer their prices to a very large degree, and they're so dominant in the economy and that their actions will be followed by the small-fries in the economy. You and Ken Dam write, “The popularity of this view is attributable in part to the brilliant polemics of a few members of the economics profession, but the weight of the evidence is against the idea that firms in relatively concentrated industries, such as steel, autos and rubber, have higher-than-average price increases during a period of inflation and are therefore in part responsible for the inflation.” So this is Chicago's analysis, this is Al Rees's work, this is your work in the fifties, this is Milton Friedman's work, that I'm hearing, in this analysis. This Chicago analysis seems to sever this causal link between the so-called price-making firms and the rest of the economy. And then what convinces me even further is that you then quote Al Rees, testifying before the House Committee on

Banking, Currency and Housing, in June of 1975. He argues that, “Although higher prices in concentrated industries is probably true, they don’t rise faster than in other industries, so there are no gains from this concentration. For that to be true would require that concentration confers a price advantage, and that this advantage would be continuously increasing.”

So, what you argue in this book is that under this kind of price control, goods move from controlled industries to uncontrolled industries, and over a long enough period we have large firms with low prices and nothing to sell. This sounds like a solid—it’s your view, but it seems to have these elements of other Chicago thinking, from your colleagues and close friends. Is the Shultz view a synthesis or a distillation of some of this other research that was going on at Chicago in the 1950s and ‘60s?

03-00:49:50

Shultz:

Well, Milton was a very powerful influence. My closest friend at Chicago was Al Rees. He was a brilliant economist and a wonderful friend. But at any rate, we all thought if you set the right environment, you want competition. You don’t want industries dominated by one or two firms, you want competitive industries. You combine those things and you will be all right.

03-00:50:25

Burnett:

So, we’re getting into 1971 now. President Nixon was getting more and more anxious about the—he reads a report about the slipping competitive position of the United States in the world, this “rise of Japan,” and he seems to shift his position. At the end of June, his position was that there would be no wage and price controls, and by mid-July we have the Nixon Shock. So in August, there’s a couple of weekends where apparently, President Nixon, Connolly and you, sit down to hash out the New Economic Policy. You were apparently not too comfortable with this policy. How did you navigate the development of the New Economic Policy?

03-00:51:48

Shultz:

What happened was, there was an argument for quite an extended period, and the fact that countries were going to cash in their dollars for gold was like telling you, you had to close the gold window. I remember President Nixon had a meeting with Connolly and me, just the three of us, and he said, “I have decided to close the gold window, impose wage and price controls, and have a special tariff, and you know it and I know it, and that’s all that knows it. Don’t tell your wife, I’m not telling my wife, don’t tell anybody, but let’s be thinking about it, because we’re not going to announce it until we’re close to Congress being in session, so that we can talk to the Congress about it.” But then events in the cashing out of gold kind of pushed and he had to—I think it was in the middle of August some time, when he made the announcement, so he couldn’t wait because of that reason.

03-00:53:06

Burnett:

Right, right. There was the famous August thirteenth-to-fifteenth Camp David meeting.

03-00:53:18

Shultz:

Then we had a meeting in Camp David, where more people were present, and he announced it and then he made a statement. I remember I was dispatched to go see George Meany and tell him what was going to happen. George was very unenthusiastic about it.

03-00:53:43

Burnett:

In that weekend, what was that like? President Nixon announces that this is what's going to happen, we're going to have tax cuts, we're going to have a spending reduction, we're going to have a wage and price freeze. Is it an orderly discussion, is there strong disagreement? What did people think?

03-00:54:05

Shultz:

Well, it wasn't as though it was an open question. He had made up his mind and it was an announcement, and then to the extent that people wanted to say, well, how do we manage this so that it was as successful as possible?

03-00:54:22

Burnett:

Right, right. As economists are often asked to do, how do you make the best of this situation? Was Friedman involved in that?

03-00:54:37

Shultz:

No, Friedman wasn't at all directly involved.

03-00:54:44

Burnett:

There's a historical analysis, that I don't know how supported this is, but that President Nixon asked you to brief Friedman before the meeting, to get his input.

03-00:55:00

Shultz:

I don't think so.

03-00:55:02

Burnett:

Okay, well, we've corrected that.

03-00:55:07

Shultz:

Friedman came in to see the President after. I forget when, two or three weeks after, and the President said to Friedman, "Well don't blame George," and Friedman said, "I'm not blaming George, I know George would never have advocated this."

03-00:55:25

Burnett:

There's a quotation from Milton Friedman, "George is a man of principle, not an ideologue like I am." So, price controls are announced, and there's multiple phases to this between '71 and '73, there's four different phases.

03-00:55:53

Shultz:

The first was the freeze, and it was wildly popular, so popular we said we've got to get out from under this, and so it only lasted, I forget how long, a matter of weeks.

03-00:56:20

Burnett:

And you've closed the gold window because—this is considered to be international economic forces virtually beyond the control of the President and of the Nixon administration.

03-00:56:36

Shultz:

What happened is the U.S. ran deficits and so people got so they were holding more and more dollars, which, according to the gold standard way, you could cash in any time you wanted and get gold. So obviously, the price for gold was not right.

03-00:57:00

Burnett:

Right. I think in 1971, there was \$40 billion in U.S. dollar holdings abroad, and there was \$12 billion worth of gold in the United States.

03-00:57:20

Shultz:

So the pressure was there.

03-00:57:22

Burnett:

Right, absolutely. Of course, we've talked about how price controls are popular in the public, and there were also, as you pointed out, in *Economic Policy beyond the Headlines*, there were some figures, important economists, who said it's not ideal but it's not so bad. John Kenneth Galbraith seemed to have the ear of a number of folks.

03-00:57:57

Shultz:

Yeah, well he was oriented that way to begin with.

03-00:58:00

Burnett:

Had you ever had interactions with him or did you...?

03-00:58:05

Shultz:

We didn't try and go around and convince people one way or another.

03-00:58:15

Burnett:

So as part of the closing of the gold window, there's a need—some people were in a near-panic about this it seemed. Is this a prelude then, to floating exchange rates? Did you see it as a prelude to floating rates?

03-00:58:40

Shultz:

Of course. When you don't have the gold, whatever the market tells you, but there was an effort to try to have something where there were exchange rates that were set, and eventually we had that system where I thought of it as a managed float.

03-00:59:16

Burnett:

Yeah, yeah. Is this what leads up to the Smithsonian Agreement in December, '71.

03-00:59:25

Shultz:

Well, the Smithsonian Agreement was an effort to establish rates at different levels than they had been before. I mean, it was an agreement but it didn't last, it didn't stand up to market forces.

03-00:59:44

Burnett:

And it seemed that there was concern about how this was going to be worked out, because if it had been left in the hands of the IMF, the IMF staff was completely against this. They wanted fixed rates, and so there was a plan to make this under the aegis of the IMF, but not with IMF staff. That seems to be how that worked out.

03-01:00:17

Shultz:

I don't think we ever thought the IMF should be running the world economy.

03-01:00:22

Burnett:

Right. (chuckles) And before the Smithsonian Agreement, this is again, another historian weighing in here, something called the 'Shultz bombshell,' and the Shultz bombshell was to make floating rates the basic center of the agreement, and that didn't pan out right away. Is that accurate, does that ring true?

03-01:00:52

Shultz:

Well, I thought floating rates were the right answer, so when I became Secretary of Treasury and found there was no plan there in the Treasury, I worked hard and produced one. I talked over it a lot with Milton, and in our discussions, we came up with a basic idea, because people liked what were called par values. So we concocted a floating-rate system in the clothing of a par-value system, that is we said every country has reserves, and you had par values, but they change automatically when reserves change. So it was like a floating system, but it had this appearance.

03-01:01:45

Burnett:

Right, tied to the level of reserves.

03-01:01:47

Shultz:

Yes. That was the U.S. plan that we presented.

03-01:01:48

Burnett:

Okay. So, you've talked a little bit about John Connolly's style, and did you think he was the right person to be in that position, you needed someone who was confident and bold?

03-01:02:16

Shultz:

He was confident and bold and he was an eloquent, handsome guy. He was very sharp, he had a quick mind. I didn't agree with him but anyway, he got his way.

03-01:02:37

Burnett:

You didn't agree with him about the price controls.

03-01:02:38

Shultz:

The wage and price controls. And he also put on a tariff to get everybody's attention, which I didn't like.

03-01:02:47

Burnett:

Right. Was that the 10 percent import surcharge?

03-01:02:51

Shultz:

I think so, yeah.

03-01:02:53

Burnett:

Yeah, yeah, and apparently, he was using that as a bargaining chip with the Europeans. So he did bold things to get people's attention and he got people's attention.

03-01:03:04

Shultz:

He did and he got it.

03-01:03:07

Burnett:

And that was to push for a clean float for the G10 countries, but this is what you were working on with Milton Friedman, a way to make a feasible transition. So this is again, another kind of gradualism and another way to meet people halfway in a kind of transition. But you hoped it would go all the way.

03-01:03:29

Shultz:

As I said a moment ago, we designed a floating system in the clothing of a par value system. People liked the idea of a par value system, so we gave them par values, but the par values would change automatically when reserves changed. So it was basically a floating rate system but it had the appearance of par values. That's not what happened but it was interesting, as is often the case. When the U.S. comes with a plan, the world heaves a sigh of relief, in that the U.S. is in the game with a plan, and maybe it's a point of departure, but anyway, we're on our way.

03-01:04:16

Burnett:

Right, right. And so this is kind of a pivotal moment in postwar history. There seemed to be, when people were arguing against it, they had some kinds of apocalyptic scenarios. Did people make cases to you or did you hear about, like European heads of state or members of the IMF saying this is going to be the end of everything? What were people saying was going to happen in a kind of negative scenario?

03-01:05:00

Shultz:

I didn't get involved very much with international negotiations until I became Secretary of Treasury. Then, I developed the plan that I told you about. Then I invited the finance ministers, the key finance ministers, in to look at it, and that led to a group of five that became good friends. They were very good people. Helmut Schmidt later became Chancellor, Valéry Giscard d'Estaing became president, Takeo Fukuda became prime minister of Japan. These were big guys and we all became good friends, trusted each other in the sense that you don't necessarily agree, but if you disagree, you say you disagree and why. We could call up and do things with each other. Trust, we had trust, and of all these things I've found over the years, trust is the coin of the realm.

03-01:06:03

Burnett:

Yeah. You said that people could disagree. Was there some emerging consensus about what a floating-rate world could look like, amongst those figures such as Helmut Schmidt and Takeo Fukuda and Giscard d'Estaing.

03-01:06:26

Shultz:

It was a gradual thing, but I think the finishing touch was put on in that little three-way meeting that Giscard and Schmidt and I had as I was going around out of office. That's the system today.

03-01:06:47

Burnett:

Right. Again, an important...

03-01:06:51

Shultz:

It's kind of a messy system but it works, and when people try to have fixed rates, they get broken down.

03-01:07:03

Burnett:

Well, it seems to be consonant with your approach, to focus on the problems rather than an explicit principle of how you would organize things. The world and the world economy is a messy place and it's a changing place, and so you need a system that can reflect that. Just to jump back, and then I do want to talk about your time as Secretary of the Treasury, I'm curious about what you know about the Departmental Reorganization Plan. You've talked about it a little bit, at least I think that's what you were talking about. President Nixon, in '71, created the Domestic Council, and it was created at the same time as the Office of Management and Budget reorganization, and it didn't last too long. Was this part of his plan to reorganize the departments along functional lines?

03-01:08:06

Shultz:

Well there was, as a holdover of the Hoover Commission, the capacity of a president to make changes in the way government was organized up to a certain point, and propose them to the Congress and if the Congress didn't vote them down, they went into effect. President Nixon, as a result of the Ash Commission, was dedicated to making the government work better. He didn't think it worked as well as it should. So there was a plan, the first increment

was to create a domestic council which was designed to pull non-economic parts together and then to create, at the same time, an Office of Management and Budget, to get more managerial thinking into the way the government operated. Then when I became Secretary of the Treasury, it was in the process, and we had proposed to the Congress, a very big plan of reorganization that basically identified members of the Cabinet as key people in effect, on his staff. I think we envisioned a meeting room for them over in the Old State Building. Now I guess it's called the Eisenhower Building, but anyway, so instead of having a big White House staff and a big NSC [National Security Council] staff and so on, you had just the people who would help set up meetings, and the content was worked by Cabinet people and whoever the convener, it would be an obvious one in some cases, in other cases it would rotate, so everybody could feel they were getting their fair shake. But the idea was then, people would meet with the President and they would formulate, make with him, policy, and it would be his policy, but they would be involved. With them involved that way, you would have access to the career people who can help you a lot if you will work with them. I found that out very clearly and it was a good plan. We'd be much better off today if it were being followed today. Everything is in the White House, and so they don't get good policy and they don't have any good execution. So if the Nixon plan were in effect today, the country would be much better off.

03-01:10:47

Burnett:

So it was more an integration of the Executive [Branch] into the various departments, and there was a kind of two-way street of communication.

03-01:10:59

Shultz:

Well that's what the government was supposed to be in the first place, that Congress set up departments to do certain things. Furthermore, it's the accountable form of government, because White House people can't be called to testify, they can claim executive privilege, whereas a confirmed Cabinet member or some Cabinet member, can be called to testify at any time. So it's not only going to work better but it's accountable.

03-01:11:26

Burnett:

Right, right. And I think you had written subsequently, after your time there, that one of the concerns of the time was that the departments had kind of developed their own kind of decision-making power—

03-01:11:41

Shultz:

Well, the argument against what I'm talking about and which White House-oriented people always use is the Cabinet member gets captured by the department and then does not have a White House point of view; it has a departmental point of view. Well, the way you deal with that is to bring people in, in a group, and you make them be in the White House literally, or the building next door. It's interesting, where you sit depends a lot on what you think and how you go about things. So that was the idea and it was basically a very good idea.

03-01:12:20

Burnett:

And reorganizing things spatially, so that there's a physically close connection to these people. You've written about the importance of leadership too. The institutions and the structures are one thing, but you've often reflected that it's the person at the top.

03-01:12:42

Shultz:

It makes a big difference. I've talked about handling the longshoremen strike. Never could I have done that without the President's willingness to take the heat and make it clear that it wasn't coming to the White House. The school desegregation business, the President had to make the decision in the first place. You know how hard it was, because it was sixteen years after Brown. And then he was involved in the administration, that is we went to him for certain points in time and he stepped up to it.

03-01:13:21

Burnett:

President Nixon's reputation has been rehabilitated to a fairly significant degree over the decades, but as we all know, he left office in disgrace and for years, he was the butt of jokes about "tricky Dick" and all of that kind of stuff. Do you feel that aspects of his presidency and his character and his strategic thinking were overlooked and have been buried?

03-01:13:54

Shultz:

Well I found, when I was Secretary of Labor, that he was very supportive on the Philadelphia Plan, the big racial battle we had, very supportive on handling strikes. I found that when you went to him and you explained the strategic considerations you had in mind, then he would go along with the tactical implementation. He liked the strategy, which I thought was a good attribute. And then I found in the budget work, he was the same. Of course, the big breakdown was the wage and price controls, and later on, when I was Secretary of Treasury, I was in the process of dismantling them, because I found then that [wage and price controls] reported to me, and he re-instituted them over my objection, so I resigned.

03-01:14:52

Burnett:

Right. The typical story about him is that he was just obsessed with being either elected or reelected, and would do anything to just focus on that narrow goal. But when you said he was willing to take a political hit to implement a strategy, that sounds different from these other stereotypes or stories about him.

03-01:15:20

Shultz:

Well, on school desegregation he thought, as he said, "This is right constitutionally and it's right morally." So that was the way he expressed it.

03-01:15:32

Burnett:

Right, so there's a different side to him that you saw. So, you are made Secretary of Treasury in June, '72. What's the context of the shift, for Connolly is out and you're in?

03-01:16:00

Shultz: Connolly resigned.

03-01:16:01

Burnett: He resigned.

03-01:16:02

Shultz: And I think he wanted to run for president, which he did, but anyway, he resigned and I was nominated and took over.

03-01:16:11

Burnett: And so Secretary of Treasury is the U.S. governor to the IMF, and the International Bank for Reconstruction and Development, the Inter-American Development Bank. It seems to be a much broader purview.

03-01:16:32

Shultz: Well, the Treasury, on the civilian side is the key department. Most of the rest of the government has been spun out of the Treasury. The OMB was started by the Treasury and then moved to be independent. At one time, the whole government was White House, Treasury, Old State and Defense, it was all right there. So, I had reporting to me, the wage-price problems. I was the person designated to manage the economic effort we had with the Soviet Union, so I went there several times and that was very educational for me, when I became Secretary of State, to have done that. But at any rate, Treasury was a great job.

03-01:17:22

Burnett: Can we open a parenthesis and talk a little bit about the trips to the Soviet Union? Can you talk about how that was educational for you and how that differed from what you'd imagined it would be like? What was the job that you were doing there and what did you learn that helped you later?

03-01:17:42

Shultz: Well first of all, there had been, for a long time, a non-willingness to allow the Soviets to buy grain in our markets. Nixon decided that we should end that, and they would be allowed to buy grain. So this is in the economic arena.

03-01:18:07

Shultz: The head of the longshoremen in New York, a guy named Teddy Gleason, said, "The President can say whatever he wants, but no grain for no communists." So I went down with a colleague who knew him well, and we persuaded him that this was the President's decision. The Soviets then, they weren't supposed to know anything about markets, right? They bought a little here and a little here and a little here, and here and here, and all of a sudden when people woke up, they had the big monopsony buy and they had cornered the market and the prices went way up and it was bad news.

So I went to Moscow and I met with [Alexei] Kosygin, who was the number two fellow and he was their economic person, and I said, "Here's what happened," he understood it perfectly well. I said, "We can't permit this to go

on,” and he understood that perfectly well. So we set out what became the conceptual basis for what was called the long-term grain agreement, which basically was that there would be information before each season started, about what the size of their buy was, so they didn’t have the monopsony power, the market would know. So I had that experience, but then I was not satisfied, so with the President’s consent, I got the CIA [Central Intelligence Agency] to make estimates of the Soviet grain crops. So they could see how much was planted, what the growing conditions were and what the yield was. I discussed that with our agricultural experts and they were appalled at the poor yields. In other words, the Soviet collective farm system was not working. So I learned that.

My late wife, [Helena Maria] “Obie,” was a nurse, so she would be invited to go to Soviet hospitals or health places, and she’d come back horrified with the standards of sanitation and work not even close to the standards that we would insist on. So, the Soviet health system wasn’t very good. Then, by chance, when [Leonid] Brezhnev came to visit the United States, Nixon had said, “You’ve resigned as Secretary of Treasury, but you’ve been managing things, so stay until that visit is over,” and so I did. And then he didn’t want the economic stuff around when he was going to have big discussions of strategy out in San Clemente, so he said, “You keep the economics here and as a special treat, go up to Camp David,” and so that was a big treat. We all went out to Camp David for two or three days.

So, I could listen to these guys talk. I mean, I didn’t know Russian but my interpreter did, and informally, when they talked together, they were not very impressed with the Soviet economy. So by the time I became Secretary of State, everybody else was thinking the Soviets are super people and I’m saying no they aren’t, they have all kinds of weaknesses. So there was a huge difference of opinion. That was based on my Treasury direct observations.

03-01:21:44

Burnett:

We’re going to talk about that a little bit later when we come to it, but how is that possible? How was there such misjudgment of the capacities of the Soviet economy, almost like it got stumbled onto in the process of looking at something else?

03-01:22:10

Shultz:

I think people were totally glued to military things and what kind of developments were going on. The Soviets were developing, there’s no question about it, ballistic missiles and nuclear weapons and all kinds of stuff. So, they were focused on that and not really on trying to appraise what was going on in Soviet society.

03-01:22:46

Burnett:

This is Paul Burnett, interviewing George P. Shultz for the Economists Life Stories project, and this is our afternoon session on September 28, 2015. We were just talking about the work that you did with the CIA, to determine the

agricultural capacities of the Soviet Union, and what you discovered about the capacities of the Soviet Union in the agricultural sector. Was this in part because, as part of the price-control program, oil and agricultural products were traded internationally and so they were not...?

03-01:23:36

Shultz:

No, this was because we'd had this experience. We'd opened our grain markets and one of the things that will tell you how much grain they were going to buy was what kind of crops they were producing. So I wanted to understand it better and what I discovered was that their practices were very poor, that the yield, given what they planted and the weather and all, the yield under those circumstances, according to our agricultural experts, was very poor. So, when I became Secretary of State, seeing that, knowing a little about their healthcare system, and something about the rest of their business, I was among those who thought this outfit is going to change at some point.

03-01:24:27

Burnett:

Right.

03-01:24:28

Shultz:

But there was huge controversy in the [Ronald] Reagan period. A lot of people thought they wouldn't change. I thought, Reagan thought that they would, and there was a big big fight about that.

03-01:24:39

Burnett:

Right, right. We should definitely cover that when we talk about your time as Secretary of State. But this is while you were Secretary of the Treasury and I want to just finish talking a little bit more about 1973. There was so much going on in this period and you were doing so much work to manage the price-control program.

03-01:25:19

Shultz:

We were trying to phase it out. There was the first, then there was a phase two and a phase three, and I thought the next phase was going to be phase out, and then President Nixon re-imposed them, and that's what caused me to resign as Secretary of Treasury.

03-01:25:36

Burnett:

At that point, you were weary of the process. Was there any upside at all from that experience for you, or for others? Did it serve a function in terms of how people experienced price controls and what they understood about them?

03-01:26:00

Shultz:

Well, it gets into you, that when the government intervenes in the private sector, it can cause a lot of damage and causes people to behave differently. That's why I was opposed to the emergency dispute in the labor area, because if you're always coming to the White House to get your disputes settled, then it atrophies private bargaining. In the case of Penn Central, if you get away with having bad management practices and blow it and you're bailed out, well

then you take more risks. And you don't want that, you want people to be more sensible. So, the wage and price controls was a massive intrusion, it changed behavior, it held back our economy, and was almost a totally bad thing. And it wasn't until Ronald Reagan came along that we finally got rid of them entirely. The remnant, it was still there on oil and gas. I think about in his third day in office, he abolished them, and he also abolished the bureaucracy that was administering them, so there were no built-in people, so they came back to us.

03-01:27:25

Burnett:

That was the two-tier price system for oil, right, that whole system?

03-01:27:30

Shultz:

That's what brought on Jimmy Carter's gas lines.

03-01:27:33

Burnett:

Right, right. And so you had done so much work in all of these different domains and on top of that there were international crises beyond the U.S. Government's control. There was the OPEC [Organization of the Petroleum Exporting Countries] crisis, and all of this is coming at the same time.

03-01:27:53

Shultz:

Well, the OPEC crisis, there was a kind of a history lesson in that for me, because when I was Secretary of Labor, the President appointed me chairman of an oil import Cabinet commission [Cabinet Task Force on Oil Import Control]. President Eisenhower had thought that if we imported more than 25 percent of the oil we used, or was it 20? Anyway, we were asking for trouble in national security terms. So we had a quota, I think it was 20, and we were bumping up against it, so that's why the Cabinet committee. So we said some pretty obvious things, namely the big vulnerability is the Middle East oil, not from a military standpoint but because of the difficulties between the Israelis and the Arabs, so we should restrict our imports from there. We ought to create some reserves in this country. There should be somebody in this government who's really paying attention to the subject of energy, because it's a strategic resource, and a few other recommendations like that. The President thanked me, there were some congressional hearings, the report was published, nothing was done. So I learned that it's hard to get something done on a pure strategic analysis. Then I become Secretary of Treasury and all of a sudden here comes the Arab oil boycott, more or less what we predicted, and everybody went wild. But, with that crisis, we were able to do the things that our committee had recommended, so that moved along.

And then I learned another lesson in the energy area, in the mid-eighties, when I was Secretary of State. There were many scientists who thought that the ozone layer was depleting; there were some who doubted it. They all agreed, however, that if it happened it would be a catastrophe. So, I discussed this with President Reagan carefully and he disagreed with the people who were worried, but instead of doing what we do now, that is villainize the

people that don't agree with you, he put his arm around them and said, "Okay, we don't agree on this but you do agree if it happens, it's a catastrophe, so why don't we take out an insurance policy." Insurance policies are an attractive concept here, because you take out insurance on your house and you don't want your house to burn down, but you have it just in case. So we all went for that and the DuPont Company came up with something we could do and we got it done and we got something called the Montreal Protocol, which President Reagan called a magnificent achievement. It turned out, in retrospect, that the scientists who were worried were right, and the Montreal Protocol came along just in time. So these days, as we're developing, arguing current issues, I'm one who thinks there's a problem. I say, well, let's do what Ronald Reagan did; let's take out an insurance policy.

03-01:31:11

Burnett:

And this has been your approach since you stepped down as Secretary of State, you have been active in developing taskforces. We should talk about that in a coming session, and your approach to dealing with pressing problems today. And so you've finished and you decide to resign in, I think May of '74 is when you officially resigned.

03-01:31:48

Shultz:

I did. It was the reestablishment of the wage and price controls. I was also upset with Nixon because one day, the Commissioner of Internal Revenue, Johnnie Walters, came in to me and said, John Dean was just in my office and he had this list of a few or so people and he said, "The President wants a full field investigation made of their income tax reforms, what do I do?" I said, "You don't do it." "And what I would tell John Dean?" "Tell John Dean we have a managerial structure here and you report to me, not him. If he wants something done he can come to me." Of course they never did.

03-01:32:36

Burnett:

That was in '72, wasn't it?

03-01:32:38

Shultz:

No that as—well, I forget just when.

03-01:32:42

Burnett:

But it was one other piece.

03-01:32:43

Shultz:

It was a piece of information that had me on the downward slide, but it was the wage-and-price-control installation, which was what I was responsible for, and I thought, "*enough*."

03-01:32:58

Burnett:

And it's also just an incredible workload that you were doing during this period. Most people would think, either about retirement or an incredibly long vacation. What was the next step for you when you finished in government?

03-01:33:15

Shultz:

Well, I got offered chairs at various universities, and I said I've been working hard, I don't want a chair, I want a couch, and nobody had a couch available. Then I thought, you know, I've had an academic career. I've taught classes, I've written books, I've been a dean, and I've had a government career, why not try business? I was surprised, I got some nice offers, but the one I liked best was from my friend, Steve Bechtel, to join the Bechtel Group, in engineering and construction. That was also popular in my family, because we had spent a short while living on the Stanford campus, and everybody could see what a great place to live Northern California was. So we came back here and then the dean said, "Well you weren't full-time, but would you be a part-time professor?" That was okay with the Bechtels, so that meant I could buy a house on the Stanford campus, which I still have, and life is good.

03-01:34:19

Burnett:

What has been your teaching load, you're teaching one course a semester?

03-01:34:25

Shultz:

Well, I had a seminar and I had the sessions on the afternoon before, say a Bechtel board meeting or something like that, and so I knew that I would be in town. So they weren't regularly scheduled; they were scheduled in odd ways. But they went off well enough and then I wrote a book, *Economic Policy beyond the Headlines*. But I learned a tremendous amount from my business experience.

03-01:34:53

Burnett:

It's a fascinating company. Do you want to talk a little bit about how it was different from your previous experience in the academy and in government? What was it like working for the Bechtel Company?

03-01:35:18

Shultz:

Well first of all, you were involved in something where you had a bottom line, so you worried about costs and you worried about your competition and so on. Then I could see, I watched Steve Bechtel as a leader, and I saw that he spent a huge amount of time on young people in the organization, trying to figure out who was good and what they would need to have in the way of experience or learning that would make them grow. He worked on that very hard and it gave me an appreciation that if you're going to be a leader, then you want to pay attention to the people you're leading and go out of your way to help them develop themselves and then they'll follow, which they did with Steve. I learned that.

I learned an interesting thing about safety. Bechtel is very big on safety on the jobsite, more than most companies. When you go into a Bechtel jobsite, whoever you are, the first thing that happens to you is a safety briefing. But I learned that safety is a different kind of problem and you need to be conscious of the kind of problem you're addressing. If you say to me, as a construction guy, build me a bridge across the Potomac River, I can make my piers out of

my steel, construct my bridge, you can drive a truck over it, problem solved, done with that. If you say build the bridge in such a way that there are no loss-time accidents while the bridge is being built, and I put up some guardrails and I think I've solved the problem, I've lost, because it's not a soluble problem. It's the kind of problem you have to work at, and if you work at it energetically enough and creatively enough and professionally enough, you just might get that bridge built without a loss-time accident, but it's because you realize it's not a soluble problem, it's a work-at-it problem. There are a lot of problems like that and basically, people work at such problems thinking you're going to solve it, whereas you have to say it's your mindset that you have to work at it, and if you do that then you're going to be much better off.

Then, from the standpoint of international things. When you go someplace to build a plant or something, you learn how you work in an environment in another country. You learn how to buy things there, how to hire people, how to lay them off when the time comes, how to get your money out, how to do all kinds of things. You learn about that country in a way you never learned when you go as a government official and meet with counterparts. So I learned a lot about countries around the world and I learned what to look for, as I went around as Secretary of State.

I also did something else as Secretary of State, that basically came out of my Bechtel experience. I would always allow some time, when I was visiting a country, and say to them, "show me something you're proud of." So, I found that spending a little time on that was very rewarding. You learned some things about the country and also, from the standpoint of how the country viewed your visit, they liked that more than if you had another visit with another minister, because it showed you were thinking about the country and what the good things about it were.

03-01:39:24

Burnett:

And it speaks to your value of trust too, so that you develop a relationship.

03-01:39:32

Shultz:

You develop a relationship and gradually, you build trust.

03-01:39:40

Burnett:

And of course this is a global operation. Forty-some percent of the construction projects were in the United States, the rest were overseas. So I imagine you were traveling quite a bit and learning a lot about many different countries, as very good preparation for the Secretary of State role.

03-01:40:04

Shultz:

Well you also saw a lot of Bechtel jobs were family-status jobs. So the family is there on the jobsite and you had to think about the life of the families and their education of their kids and so on. So when you're Secretary of State, you find there are lots of posts all over the world, in the family status post. So you

have to think about them that way and how are the children of these families going to get taken care of properly, and worry about those things.

03-01:40:39

Burnett:

Right, absolutely. I guess this is shortly into your time at Bechtel, and you gave a lecture at NYU [New York University] in 1975 called, "Leaders and Followers in an Age of Ambiguity." It has a very definite point to it, but it's also a kind of reflection piece on the mood in the country in the 1970s and perhaps in the world. Perhaps you had some distance from your position, that you had gone through this storm of activity in government. What was your sense of the feeling in the country, as you've taken up your position at Bechtel and you're writing this lecture? What was going on in the country and where do you think the solution was, culturally, in the country?

03-01:41:43

Shultz:

I'm trying to think back to those days. I was heavily employed at Bechtel, so I was working hard, and I was thinking about new things and learning new things. We had gone through this traumatic period with President Nixon resigning and there was still inflation. Oddly, the wage-and-price control system contributed to the inflation, because it led the Federal Reserve to overestimate what the wage-and-price controls would do and their monetary policy was too loose, and so it was not a good period.

03-01:42:41

Burnett:

One of the things that you talk about is that all of these changes bring new opportunities for creativity, but there's a persistent lack of faith in institutions and in leaders, and there is this complaint, "where's a leader to take us out of this?" One of the things you said that was really striking was, "We need to think less about leadership." And you're speaking to the [NYU] business school, the future leaders of the business world and you said, "We need to think a little bit less about leadership and a little bit more about follow-ship."

03-01:43:30

Shultz:

Right, we learn to follow as well as lead. The [Gerald] Ford period was followed by the Jimmy Carter period, which also went badly. The wage-and-price controls continued to do damage and Jimmy Carter's obsession with human rights around the world, which was laudable; still, it wasn't a proper basis for foreign policy. So we had foreign policy in disarray and economic policy in disarray. It was a bad period.

So then a leader comes along named Ronald Reagan. When I think back of the people around the world that we dealt with, of course Reagan had Tip O'Neill and a lot of other leaders that he worked with on both sides of the aisle. In Britain, we had Margaret Thatcher, in Japan we had [Yasuhiro] Nakasone, in Singapore we had Lee Kuan Yew, in China we had Deng Xiaoping, in Germany we had Helmut Schmidt and then Helmut Kohl, in France, [François] Mitterrand, in the Soviet Union, [Mikhail] Gorbachev. So we had people to work with that were real leaders, that could get something accomplished, who

could agree to do something, sometimes out of the ordinary, and we could get it done.

03-01:45:05

Burnett:

Right, right. But from your perspective, and you're busy at Bechtel, it looks pretty bleak, your view of the late seventies and the Carter administration, things were just not going well.

03-01:45:17

Shultz:

But then when Reagan took office, of course I was his economic adviser during the primary and during the campaign, and then for the first year and a half of his presidency, on a pro bono outside basis. So I was close to him. He was a fellow here at the Hoover Institution, an honorary fellow, so I knew him pretty well.

03-01:45:44

Burnett:

Before he became president.

03-01:45:45

Shultz:

Before I became Secretary of State.

03-01:45:49

Burnett:

When did you first meet him?

03-01:45:52

Shultz:

I don't know when I first met him, but my first real interaction was when I came back from my three different Cabinet posts in the Nixon administration, I was invited, by the then-Governor Reagan, to come up to Sacramento and have lunch with him, and what I got was a grilling for about two and a half hours, on how the Federal Government worked. How did the budget get put together, what does the president do, what does the OMB do, and so on. I came away saying the guy wants to be president, but he wants to do the job. He's operational. He's thinking about how, if I'm president, do I get something to happen. And so it isn't just about making a speech about a policy. How do you get the policy to work? I was impressed with that.

03-01:46:37

Burnett:

Right. And this is '74, '75, just as you'd left.

03-01:46:40

Shultz:

Yeah.

03-01:46:45

Burnett:

Wow. So there's obviously a kind of rising conservative movement in the United States in the 1970s, and there are intellectual leaders and political leaders and operational leaders. During your time at Bechtel, did you have an advisory role to Reagan during those years?

03-01:47:20

Shultz:

I didn't have any official thing, other than what I was doing at Bechtel, and my authorized part-time work here at Stanford, but I did occasional chores, like I mentioned to you how the group of seven got started earlier.

03-01:47:39

Burnett:

Yes, that's right.

03-01:47:40

Shultz:

So I was asked to do that and I did it.

03-01:47:45

Burnett:

I think you went to a couple of economic summits for the Ford administration. That was maybe just after you had finished. There were a number of other economists too, who were invited to that.

03-01:47:57

Shultz:

Yeah, but I thought they didn't understand and there was just more of the same, it wasn't going to go anywhere.

03-01:48:03

Burnett:

Right. So perhaps taking a break as you did and just working as the vice chairman of a company, because you start at Bechtel, you're vice chairman of the three companies, is that right?

03-01:48:18

Shultz:

I started at Bechtel, my title was Executive Vice President. I was on the board and then the executive committee. And then the company was divided into three parts, but the overall part was called Bechtel Corp., and I became the president of that, and Steve the chairman. Steve was the—sometimes people get confused and they think because I was president, I was the chief executive. That would be news to Steve Bechtel.

03-01:48:49

Burnett:

[laughter] It's extraordinary, because it's a large, multinational company, but it's a privately owned company. I was looking through the press on Bechtel Corp in the 1970s, and there were question marks around the fact that it was a private company, and there were calls for disclosure of information about it. Is that something that you had to manage when you were at Bechtel?

03-01:49:25

Shultz:

One of the things I did, and Steve gave me credit for this, I said "we're a private company. What is it that we need to keep private? There's nothing private about the jobs we do. We're proud of them; we're proud of our people." So gradually, we became more open. Another issue in the annual report that says here are the jobs we're doing and here are the people who are running them, and here's our organization chart and here's the amount of revenue we take in each year, but we don't say anything about our profits or who gets paid how much. That's our private business. So I think that worked well, it dispelled a lot of the yammering about what are they up to.

03-01:50:12

Burnett:

Right, right. One of the things that almost has a foreign policy component was when the Justice Department engaged in the Arab boycott antitrust suit. Can you talk about that a little bit?

03-01:50:41

Shultz:

There was a lot of yammering about the Arab boycott, that is they wouldn't do business with somebody who did business with Israel. I was, by that time, the Bechtel representative on the Business Roundtable, and there was a man named Irving Shapiro, who was the head of it. He was head of the DuPont Company. So Irving and I wound up with a negotiation with the American Jewish community, on the kind of legislation needed to deal with the issue, and we worked out an agreement. The Congress was so relieved that they passed what we agreed to without changing a comma. So politically, it was dealt with. Then the king of Saudi Arabia, King Khalid, thought that we had done a good job, so Irving and I were invited to Saudi Arabia. So we said okay, we'll come, but we want you to know that we're going from Saudi Arabia to Jordan and we're going from Jordan to Israel. We wanted him to know we were going to Israel and if that wasn't okay with them, they could say so and we wouldn't come.

Not long before we went, [Anwar] Sadat went to Jerusalem and so the whole place was in a state, and people were passing messages to us, even in Saudi Arabia. We had a great visit there and then we had a nice visit with the king in Jordan, and then we went to Israel. I remember Irving had sponsored quite a few educational efforts in Israel, so we went to quite a few luncheons and dinners, and I was always seated, you know, man, woman, man, woman seating, usually seated between two women and they were often mothers, and if somebody says to me, the Israelis don't want peace, I say you're crazy. It was dramatic, to see the impact of Sadat's visit, because they would say, you know, peace is not probable but at least it's possible. Before it just wasn't possible but now it's possible, maybe not probable but possible. So there was that desire to have a peaceful situation. And of course eventually, they did have the Camp David accords, which was one of Jimmy Carter's major achievements, I thought, that brought peace to Egypt and Israel.

03-01:53:30

Burnett:

The seventies are often regarded as a time of instability. Exactly as you're describing it in your lecture in '75, there are all these concerns. There's this uncertainty about the future. There's an optimistic streak to you I think, and you can correct me if I'm wrong, but I'm wondering if your exposure to this engineering firm, this globe-girdling engineering firm, and your relocation to the Bay Area, did you have a sense that the United States was going to turn the corner in the 1970s, based on some of those experiences?

03-01:54:29

Shultz:

Well, I think that I'm an optimist in the sense that I have had enough experiences seeing that if you will tackle a problem in good faith, even though

people say it's impossible, you can get something done. And of course in the Bay Area, all over the place there are people who have invented things and done things, accomplished things. So this is a very attractive place in that sense. People are not down in the mouth or they want to invent something and do something and create something, and manage it. The Bechtels, old Steve Bechtel, was right out of that same cloth. He was a guy who would go and manage things. During the war, people don't realize this, he started a big shipyard. The Kaisers are better known, but he had just as good a shipyard.

03-01:55:25

Burnett:

And during your time there, there's a shift in Bechtel's operations. It grows, right, I mean it more than doubles...

03-01:55:42

Shultz:

It grew a lot while I was there and we were heavy in nuclear power plants, but I think our international business grew quite a bit during that period. It was very rewarding for me. I learned a great deal. As I said, you go to a country and learn how to buy things and sell things and hire people and lay them off and get your money out and so on, you learn something about the country that you never learned by another ministerial meeting. So I understood the world a lot better as a result of my Bechtel experience.

03-01:56:40

Burnett:

The company is moving away from building nuclear power plants, to doing remediation or cleanup, right? I think that's something that changes during that time.

03-01:56:58

Shultz:

Well, yeah, a lot of them have to be worked on after all these years. The United States has not been building new ones very much, so I'm sure—I don't know what the Bechtel situation is now, I've been out of it for a long time, but probably their skilled manpower in the nuclear area has diminished a great deal. I personally think, in this country, we need more nuclear power and we should have a more aggressive program, maybe particularly with small nuclear reactors.

03-01:57:35

Burnett:

The seventies is a period of growth and regulatory agencies, the EPA. You talked a little bit about the EPA [Environmental Protection Agency] a couple of sessions ago and [there's also the founding of] NIOSH [National Institute for Occupational Safety and Health] and OSHA [Occupational Safety and Health Administration]. Some of those obviously are really important, but in my interviews with people in the mining industry, they talk about this being initially a fairly welcome thing, but that the regulatory atmosphere became difficult, made it difficult for certain kinds of industries to operate in the United States. Was there a similar impact on Bechtel, as it changes the mix between its domestic and international operations?

03-01:58:28

Shultz:

No. I think we figured out how to get along. I think in the last ten years, the regulatory atmosphere in this country has become very overbearing, but earlier days, not so much. I remember when the EPA was created, President Nixon signed that legislation, and when a new agency is created, it gets space and people from other agencies to get started, and there's nobody to speak for them. So unless they have an advocate, they'll get all the worst. So, the director of OMB becomes their advocate, and we're pretty good advocates because we know where the bodies are buried, and also, nobody wants to mess around with us too much. So in some odd way, I was the first director of EPA, in getting it started, and a lot of the people that worked for me on the oil import taskforce, bright young people, came around and they wanted to have jobs in the EPA. Why? Because they saw a lot of low-hanging fruit, a lot of environmental things that could be fixed fairly easily, and they wanted our air cleaner and our water cleaner, our streams, lakes, and I think the EPA did a great deal of good in that sense. It has now gotten itself in way, I think, over its head, in the regulatory thing, but for a long while, it did really good things.

03-02:00:01

Burnett:

And you did write about the development or expansion of the bureaucracy in *Economic Policy beyond the Headlines*. How did you manage to write this book when you were at Bechtel and you were at Stanford? You worked with Kenneth Dam, I understand, in writing this book. He coauthored it.

03-02:00:28

Shultz:

Yeah.

03-02:00:30

Burnett:

Can you talk a little bit about Kenneth Dam and how you got the idea for this?

03-02:00:32

Shultz:

Ken Dam was a professor of law at the University of Chicago. I knew him there. And then I needed somebody to come into the OMB and manage, I think, the defense portfolio, I'm not so sure. So I persuaded Ken to come and do that, and so he worked with me at OMB and then he worked with me in the Treasury, and we were good friends. Then he came to be my deputy when I was Secretary of State, for a while, and then he went off to be general counsel of IBM [International Business Machines]. We worked together in the government and then we wrote this book together, and we were good friends, it was easy doing it, no strain.

03-02:01:21

Burnett:

Right, right. And it just flowed off from your experiences, the kernels of wisdom you had developed while you were in government.

03-02:01:27

Shultz:

Right.

03-02:01:31
Burnett: The scale of these projects at Bechtel are incredible. One of the things that happens while you were there is the contract to build a city.

03-02:01:48
Shultz: To build what?

03-02:01:49
Burnett: A city, in Saudi Arabia.

03-02:01:51
Shultz: Yes, right.

03-02:01:52
Burnett: Can you talk about that? That's an incredible project.

03-02:01:59
Shultz: Well, it was a project that got started when I was there. I can remember flying over where it was going to be, it was just a little bit of land. It was a fishing village and so it's been totally transformed into a major city and a center of employment in Saudi Arabia, and Bechtel got the contract to build the initial city, and I guess they're still working there as far as I know.

03-02:02:27
Burnett: I think the contract, it was a twenty-year contract for \$100-something billion.

03-02:02:35
Shultz: Well, no, I think, I don't remember exactly, but there was a major contract and Bechtel did it well.

03-02:02:44
Burnett: To manage and plan the construction of a city, it's now 120,000 people, it's going into a second phase. So these are just astonishingly large projects.

03-02:03:00
Shultz: Well, Bechtel is very good at taking something that's big and complicated, with engineering aspects and personnel aspects and financial aspects, and they're complicated to manage, they manage those things well.

03-02:03:18
Burnett: And so it's during this time that you see that Ronald Reagan is becoming more active in politics and has aspirations. In the '76 election he attempts, and in 1980 he's successful. You were advising him for the 1980 election, is that right?

03-02: 03:45
Shultz: He was an honorary fellow at the Hoover Institution here at Stanford, and I'd had this conversation with him, intense grilling on how the government worked. Then we had him for dinner once at our house, with a group of people, and then he asked me to help him on economic policy and I formed a little group, and we were helpful during the primaries. Then he asked me to do

the same during the general election period, so I formed a really good group of advisers, and between the election and the inauguration, we had a meeting with him in Los Angeles and we gave him a written statement, sort of basically codifying all the things that he had talked about, in programmatic terms, and I think it helped get the whole thing going, the economic policy going. Then there was created an economic policy advisory group in the government, populated—it was all pro bono, but I chaired that, and we had notable figures like Milton Friedman, on things like that. We'd go and we'd meet every three or four months.

So then I'm in London on a Bechtel trip, and I was meeting with a group of our clients, giving a talk, and somebody came and handed me a note saying, "Mr. George from the White House wants to talk to you." I said, "I don't know any Mr. George," and I brushed it off. And then after my part was finished somebody said, "No, it's not George, it's Judge, Judge Clark, the President's National Security Advisor." So I took the call and he said, "The President would like to talk to you on a secure phone, would you go over to our embassy, let's say at three o'clock this afternoon, your time, and take a call from the President." So, of course I knew him well and I talked to my wife and I said, "I don't know what he's going to ask, I'm sure he's going to ask me to do something and I'll probably have to say yes." So then we got on the phone and he told me, "Al Haig has resigned as Secretary of State and I'd like you to be his replacement." So I said, "Al Haig has resigned, that's past tense?" He said, "Yes, he's turned in his resignation and I have accepted it, that's past tense, and I don't want to leave a job like this open and I would like to announce a replacement," and I said, "You're asking me to accept this job over the telephone?" He said, "Yes, I am," and I said, "We know each other pretty well, we've worked together a lot, so yes, it would be good." So I finally said yes.

The next day, we're flying to Washington, from London, and we're met at the Dulles Airport by all the powers that be on the White House staff, and they said "there's a chopper over here to take you up to Camp David, where the President would like to meet with you, and there's a car here that can take your wife into town and she can find a hotel room." I said, "Look, this is a package deal. We both go to Camp David or if you want, we can both go find a hotel room, but take your choice." So we both went up to Camp David and Nancy [Reagan] was expecting us. So much for them. We had good meetings and I knew enough, having been in the government before, that I said, when I'm nominated and when I appear before confirmation, this is my moment of silence. I won't say anything to anybody, I'll prepare myself.

03-02:07:48

Shultz:

So that's what I told the press and with a period of silence while I went to the State Department, was briefed, and then of course I had to come back to San Francisco and get my affairs in order, unfortunately sell all my Bechtel stock and pay capital gains taxes and things like that.

03-02:08:08

Burnett:

Before the capital gains [taxes] had come down. Was there a time when you were offered...wasn't there an article in December of 1980— because this [appointment in the wake of Haig's resignation] is later, I think—you had had to remove yourself from consideration from President-Elect Reagan's Cabinet?

03-02:08:36

Shultz:

No, he called me and talked about coming into the administration, and then he said, "Well, I know you've served before and you have a good life," and I said, "That's right." I said, "Let some other people do it and I'll do anything you want." So the conversation sort of ended. Mike Deaver told me later that he was supposed to ask me to be Secretary of State on that telephone call but he didn't do it.

03-02:09:02

Burnett:

Okay. So he wanted you back then.

03-02:09:07

Shultz:

But I did agree to do the economic advisory role, and I think that that was in some ways more important, to get the economy going, and by the time 1983 arrived, the economy was really going and inflation had been gotten under control finally, by doing it the right way.

03-02:09:29

Burnett:

Yeah. Can you talk a little bit about the kind of economic advice that your group gave President Reagan?

03-02:09:38

Shultz:

Well he knew and we all knew that you couldn't have a decent economy with the kind of inflation we had, and Paul Volcker was head of the Fed. He had been my undersecretary when I was Secretary of the Treasury, and he was doing the things that needed to be done, mainly control the money supply. I always thought in many ways, it was President Reagan's finest hour, because you could see that controlling the money supply would mean the economy would probably take a dip and we would lose seats in the midterm election. People were running into the Oval Office all the time saying, "Mr. President, Mr. President, he's going to cause problems." And he put a political umbrella over Paul Volcker, so Paul could continue to do the things he did. This was strategic thinking and a willingness to take a short-term beating in order to get a long-term result. It was a very wonderful piece of work on the part of President Reagan, but by the time 1982 ended and '83 came, inflation was under control and everybody could see that was going to stay that way. The

tax reductions they had put in kicked in and the economy took off like a bird in 1983. So we had a strong economy, but it was because we followed, finally, the right kind of economic policies to get us there.

03-02:11:18

Burnett:

And this is you and Milton Friedman and others. Was David Stockman involved in that?

03-02:11:28

Shultz:

No, Stockman was not involved at all.

03-02:11:32

Burnett:

So this is—so you've agreed to be Secretary of State and of course, there would be conversations between you and the President, about what your role was to be, but how did your training as an economist and your experience at Treasury and Office of Management and Budget, and as Secretary of Labor, how did that background feed into your vision for the role and Ronald Reagan's vision for your role as Secretary of State?

03-02:12:24

Shultz:

Well I knew, to get anything done of importance, you had to have presidential leadership, and people had to see you as representing the President. So people would ask me about my foreign policy and I always said I don't have one, the President has one, and it's my job to help him formulate it and carry it out, but it's not my policy, it's his policy. Then I had learned, from my earlier Cabinet experiences, that the career people know a lot and can help a lot, and if you will work with them, they will work with you. So the foreign service people in the State Department are wonderful, really professional people, and I reached out to them and they really helped me. So we created a team in the State Department, a sense of community that worked well.

Then I had some initial struggles with the White House NSC staff and I told the President, "You don't need me around here if all I'm doing is doing whatever they want." So his suggestion was, and we carried this on for the rest of the time, that we would meet twice a week privately, and those meetings would be put on the public calendar, so people would know that was happening, so people would know that I'm close to the President and I'm speaking for the President. That was a very important development.

03-02:14:02

Burnett:

How early on did the friction with the National Security Council start? That's something that you write about in your memoirs a great deal, and it comes to a head near the end of the time that you're Secretary of State. Was this evident early on as well?

03-02:14:27

Shultz:

Well early on, there was a problem and it was in response to that problem that the President suggested we have these two private meetings a week. We didn't try to make decisions in those but we tried to look out ahead and say here's

something coming and how do we position ourselves for it and so on. They were strategy sessions in a way. I would go down, after each session, and brief the National Security Advisor, so he wouldn't be blindsided. So after a while I said to the President, "Why don't we let him sit in as a silent partner, save me briefing him, and you can tell him he's not to say anything, just sit there." So we did that.

The big struggle in the Cold-War sense, was between people who thought it was worth working with the Soviet Union, because we thought they would change. I thought that, the President thought that, Margaret Thatcher thought that, but the people in our CIA didn't think so, and mostly in the DOD [Department of Defense], they didn't think so. They were really focused very sharply on the military side of things. They didn't really see these other things, or at least that's the way it seemed to me. So, they said they won't change. Well, I can remember going to Moscow in 1986 or something and I go out to put a wreath on the grave of Boris Pasternak, and I'm invited to a luncheon with some people called intellectuals. There was a person there who said "I finished this novel twenty years ago and finally, I'm allowed to publish it." Another one said, "I direct plays, I can put on anything I want pretty much, the lid is off," and so on, people around the table like that. And they said "we have a new openness" and I said, "Well, you can take it away as well as give it," and they said, "No, it's beyond the point of no return." Then I'm invited to go on the most popular talk show and they said, "How long will you go on?" I said, "As long as you want." "Do you have any conditions?" "Yes, I have only one condition." "What's that?" "Whatever is said, you play, no censorship." They agreed.

So there came a time when it was very easy on the show for me to say, "you invaded Afghanistan. The people there, they don't want you, you're losing people, and you ought to get out." And they played it! I said don't tell me there's no change; there's change.

03-02:17:22
Burnett:

So it was palpable by that time, by the mid-eighties. When it came to, let's say, in strategic terms, when it came to the Soviets or other powers dealing with the Secretary of State, what difference did it make to them, do you think, that you were an economist by training? Do you think that that had an effect on how they approached you?

03-02:17:53
Shultz:

I think Gorbachev was very conscious of it, and there was one time when he said, "I want you to talk to so and so, who I'm putting in charge of rearranging our economic policy." And I went and talked with that man and he said, "You can't believe what I've found here. We have, in our central planning, we tell every little town in the Soviet Union what they can do, it's ridiculous." I said, "It *is* ridiculous." But the idea of a market struck them as chaos, "there's nothing orderly about a market." I said "wait a minute. A market solves

problems, it's the way you get problems solved without trying to dictate everything from the top." It was hard for them to understand the concept and the orderliness of a market, even though it looks disorderly, but they gradually got it. They were still hung up.

I remember, I met with Deng Xiaoping, in my last swing through China as Secretary of State, and this was in '88, I guess, in July, and Gorbachev's reforms were sort of riding high and he had been there. I asked him what he thought of Gorbachev's reforms and he said, "He's got it all backwards. He opened up the political system and he doesn't know what to do with the economy, it's going to blow up in his face," just like that. I said, "Well, what about China?" And he said, "Well, I know the Chinese people, so it started with farms and it started with small businesses opening up, and people see it succeed, so they want more of what's succeeding, so I'm giving them things they want and our economy will gradually flourish." I said, "Well, what about the political system?" He said, "Well, it will happen the same way. There will be more involvement of people in their governance at the community level and gradually it will come up, but we always have to have a strong central control, because China is so diverse, it will fall apart unless we have control at the center." That's an interesting observation.

03-02:20:20

Burnett:

It is, and I guess we're still waiting for them to open up politically completely.

03-02:20:27

Shultz:

Well, but he was saying we'll never open up politically at the center.

03-02:20:32

Burnett:

Yeah. There are economists who link, very strongly, open markets with open political systems.

03-02:20:45

Shultz:

Well I think you can see how, for instance in Chile, the AID [United States Agency for International Development] came to the University of Chicago economics, and wanted us to run an aid program. We said we don't know how to do that; all we knew how to do is train people as economists. So they had a program of Chileans coming, and they were trained in market-type economics, and when [Augusto] Pinochet took over, the Chilean economy was a total mess. That was one of the reasons that he took over. He didn't know what to do so he sort of said in general, does anybody know how to run an economy? And our guys put up their hands and said we know how, and so they put into place, in Chile, a free-market economy and it worked, and during the eighties, they had the only real good working economy in South America. Of course, so I had seen that as an economist, at the University of Chicago.

Then, I forget exactly what date, 1987 or something like that, he decided to have an election, because the constitution called for an election of the president every ten years or something like that, and he'd be the only

candidate so it wouldn't be a problem. Well, it turned out there was opposition, and we counseled the opposition carefully; don't get drawn into violence, because that will be the excuse for canceling the election. We got word that [Fidel] Castro in Cuba, was sending arms down and was trying to foment violence, and we stopped the arms flow and we kept our people from any violent activity. So they had the election and Pinochet lost, more people voted against him than voted for him. In the face of that, he made a deal: you make me senator for life, free from prosecution, and I will get out of the way and we can have an open democratic system, which they now have.

03-02:23:05

Burnett:

Right.

03-02:23:08

Shultz:

But I think the openness of the economy really probably gave them the feeling of wanting to open politically.

03-02:23:18

Burnett:

It took a certain amount of time for it to unfold. You know, I think that there's Shultz the economist and Shultz the diplomat at work, in your time as Secretary of State. With respect to economic matters, in 1985, there was a trade imbalance between Japan and the United States. Could you talk about how you approached—because did you know Prime Minister Nakasone from before?

03-02:24:09

Shultz:

I knew him a little bit from before, and when he became prime minister, I said to President Reagan, "This is unlike any Japanese leader you ever met with. He's smart, he's dynamic, he's willing to make decisions, and you'll enjoy him." Nakasone, there was a visit to Washington arranged, we really worked on it hard. He had a daughter who had spent time in the United States, so there were official interpreters in all the formal meetings, but the daughter was the interpreter at all the informal things. It lent a kind of charm and family feeling to the whole thing. So out of that developed the so-called "Ron and Yasu" relationship. I did the same. The foreign minister, [Shintaro] Abe, the father of the present prime minister, he was the foreign minister, and so I invited him to my home for a drink and some talk, in an effort to become friends, and we did. So we developed, with the Japanese, a very good working relationship. For example, in the INF [Intermediate-Range Nuclear Forces Treaty] negotiations, the nuclear forces, we did not accept having it only Europe. We insisted that the weapons that were aimed at Asia also be eliminated, and they noticed that and they were very impressed. We didn't let them down.

03-02:25:47

Burnett:

Yes. And also, sort of persuaded them to lower their protectionist barriers a little bit.

03-02:26:02

Shultz:

Some.

03-02:28:05

Burnett:

Yeah, some, in that process. But again, it's about developing personal relationships and about developing a certain level of trust between leaders, and you're facilitating that in your approach.

03-02:26:19

Shultz:

I was an advocate of what I call gardening. I said if you plant a garden and you go away for six months and come back, what you have are weeds. So, you don't go away, you stay there and you pull out the weeds when they're small, and so then your garden flourishes and you have flowers or whatever you're growing. Diplomacy is like that. You talk to people when there's no particular crisis, you're just discussing what's going on in a general way, and you go there and they come here. Everybody can't come to the United States, you've got to go where they are and see their scene, and that I call gardening. Then when a problem comes up, you've built a relationship of trust and you can discuss it with more candor. I got to the point where, with my counterpart in China, Wu Xueqian, would say to me, "George you're trying to get here, and you're coming at it like this [motioning up one side of a slope]. This is hard for us. You come at it like this [motioning up the other side], we can get there." So we changed the direction and we get there.

03-02:27:32

Burnett:

But without that trust, you couldn't have that transparent conversation.

03-02:27:34

Shultz:

No, you couldn't have that kind of conversation.

03-02:27:39

Burnett:

In your memoirs there's this moment, I think it's the first time you meet Gorbachev, and he puts down this book, which is an edited volume by the Hoover Institution, called *The United States in the 1980s*, and there are articles by Milton Friedman and [Hendrik S.] Houthakker and others, and there's Chicago folks in there. Can you talk a little bit about how he understood you, how his people had done research about you? What did he think he knew about Shultz in his initial approach?

03-02:28:25

Shultz:

I don't know. I know the first time I met him was at the [Konstantin] Chernenko funeral, and our delegation was headed by Vice President Bush. So I had a couple of things the President wanted me to say, but otherwise, I could sit back and watch. So I watched Gorbachev carefully. He had a lot of notes, he shuffled them around, never looked at them. We covered a wide range of subjects. You could converse with him. If I'm sitting with you and I say something that goes by your ear and then you say something that goes—that's not a conversation. A conversation is when you listen to what I say and you respond to it, and I do the same. So I saw, you can have a conversation with Gorbachev. His range of knowledge I could say was quite great, and so I thought it was impressive, and I remember saying to our people after we left, "this is unlike any Soviet leader we've met before. He's smarter, his range is

greater, he knows more, and he's tough, just like right out of their book, but you can have a conversation with him, he'll listen to you and respond." So, over time that's what we did.

03-02:29:45

Burnett:

It seems also, from your memoirs, based on your experience in the 1970s, that you developed an approach that used what you anticipated the comparative economic futures of the Soviet Union and the United States and the rest of the world to be. Can you talk about how your framing of changes in the global economy became part of your approach as Secretary of State, vis-à-vis, perhaps not just the Soviet Union but other countries as well?

03-02:30:37

Shultz:

With the Soviet Union, we worried a lot about human rights and emigration. People don't know it, but the first deal we made was a human rights deal. I won't bother you with that, but at one point, [Eduard] Shevardnadze said to me, "George, we might do some of the things you want, but not to please you, only if it is to our advantage." So I thought about that comment carefully and with President Reagan's support, I worked out and I wrote it out carefully, a statement about the Information Age and how it's changing everything, and if you run a closed, compartmented society, you're going to get left behind. So you have to open up and let people interact, including internationally, and move around. I wrote this out and in a meeting with Shevardnadze, I read it slowly, so their note-taker could take it down exactly. Gorbachev told me it made the Politbureau. But at any rate, I was in effect responding, saying it's to your advantage to make these changes, and eventually they saw it that way.

03-02:32:03

Burnett:

I think there was a story at some point, where you or an associate of yours had developed charts. It was almost like an explanation of the development of a multi-polar world, for example, that you started to champion the free and open economies that you were witnessing over the previous twenty years or so, that you'd seen them emerge. So that became a piece of the diplomacy with the Soviet Union.

03-02:32:40

Shultz:

Exactly. In one of the meetings with Gorbachev, which were always rather lengthy, there was always a break and he called a break and I said, "While you're here, let me show you something," and I had some charts on this question of what's happening in the world economy. He became very intrigued with it. I mean he would listen and look at these things.

03-02:33:10

Burnett:

And so your position, as Secretary of State—and there were others who were in charge of Treasury and Budget and so on—were there times when you were asked economic policy advice about areas outside of the Secretary of State's purview? I imagine you wanted to be very careful about that.

03-02:33:41

Shultz:

I was very careful, because having held those jobs, I didn't want the people who were in them to think I was impinging on their turf. So if somebody asked me a question, particularly one of them, I would be glad to talk about it, but I didn't try to insert myself into their world.

03-02:34:01

Burnett:

Yeah, yeah. I imagine, as someone with all of that experience, that you were a resource to these other folks. Was that the case?

03-02:34:11

Shultz:

A little bit but not too much.

03-02:34:17

Burnett:

Well, let's break for now and we'll pick up next time. Thank you very much.

[End of Interview]

Interview #4 September 29, 2015
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04-00:00:03

Burnett: This is Paul Burnett, interviewing George P. Shultz, for the Oral History Center of the University of California, Berkeley, and the Becker Friedman Institute at the University of Chicago, and this is our fourth session. It's September 29, 2015. Mr. Shultz, we were talking a little bit about your time as Secretary of State, and you've written pretty exhaustive memoirs of that period, and so I just wanted to ask one more question about your thinking as an economist and how that helped you in your approach to challenges.

In the case in the arms-for-hostages crisis, your position was pretty clear on that, and it was about the downstream consequences of such activity. Can you talk a little bit about your orientation to the problem and how you argued your position with others in the U.S. Government?

04-00:01:13

Shultz: There were a number of problems with the Iranian arms sales. In the first place, it was alleged that we were going to have a turnaround of Iran. I thought that was an illusion. We didn't want to give them arms. Then the whole idea that intrigued the President, they built up the Iran thing: "and by the way Mr. President, we'll get our hostages back." That was done for him. But that's a very bad idea, to trade for hostages, because it just encourages people to take more hostages. You can sell them. So it was very bad in every way, I thought, and of course, I didn't know, it came out later, they took this money to help support the contras. It was all for the contras, but that's not constitutional to do that, so that was a grave constitutional mistake. So the whole thing was a shambles that I could see.

04-00:02:21

Burnett: This problem continues, and as I understand it. Other countries do buy hostages back, pay ransoms, and your position seems to be borne out. I guess officially, the U.S. doesn't do that.

04-00:02:40

Shultz: I think it's very important for the U.S. to maintain the position of not trading for hostages.

04-00:02:53

Burnett: Let's jump ahead to your completion of your time as Secretary of State. That was an incredible period and it resulted in the end of the Cold War and it opened up new vistas, new opportunities and new problems. What was the trajectory for you, once you finished as Secretary of State? What was next for you?

04-00:03:27

Shultz: Well, I came back to Stanford. I was a professor on leave, so I resumed that. Also, I became a so-called distinguished fellow at the Hoover Institution,

where they offered me facilities that made it much easier to write and develop a memoir than I could get anywhere else, so I made my office at the Hoover Institution, and it worked out very well. It's a stimulating place. Stanford University generally is a huge stimulation, it's really fun, and this area is also full of interesting people doing good things, so life is good.

04-00:04:16

Burnett:

It allowed you a certain amount of intellectual quiet, so you could reflect, both back on the past, as you developed your memoirs, and also thinking about the general wisdom that you'd accumulated from your time in public service and your time as an academic. Can you talk about, as the 1990s unfolded, what were some of the intellectual problems and the policy problems that you really sank your teeth into during that period?

04-00:04:54

Shultz:

Well, we have a lot of very good economists here, so we've had a continuing economic dialogue and occasionally, I've written something that's come out of that kind of discussion. Energy came to the fore as a subject, something I'd been interested in for a long time, and so we had a taskforce here, with Tom Stephenson, and we worked on that subject. Of course, I'd had a continuing interest in nuclear weapons and getting rid of them if we could, getting control of them. So we've had a lot of work on that, most recently a book on Andrei Sakharov, that's related to that, so there's quite a few books in that arena have come out. Those are things that I worked on.

04-00:05:48

Burnett:

You've talked earlier about the taskforce setup here. When did that start and how were you involved in the setup of these taskforces?

04-00:06:06

Shultz:

I think it started with an interest that people had in K-12 education, and the need to do something about it. It was obviously in bad shape in this country. So, a group of people got together, not only people at Hoover, but we brought some from Harvard and elsewhere, to the taskforce, and the Pratt Foundation financed it, so it had enough money to do things. That goes on to this day, they publish a magazine called *Education Next*, and it's had quite an impact, I think. At any rate, it's sort of this idea of taskforces on subjects and nobody has to do anything. If you want to take part, you can; if you don't, you don't. So we have an economics group, we have an energy group, we have a national security group and I take part in all those.

04-00:07:01

Burnett:

And after you finished as Secretary of State, you set up a Stanford advisory group on economic policy. I can't remember the name exactly but I think Arnold Harberger was involved in that.

04-00:07:20

Shultz:

There's an organization now called the Stanford Institute for Economic Policy Research, SIEPR it goes by. I was quite heavily involved in getting that going.

It happened in an odd way. A very good friend of mine named Bob Solow, who is a very good economist and he's a great guy, he came and we had a cocktail party for him. My next-door neighbor was Moses Abramovitz, who was then head of the economics department. We decided we'd invite anybody around campus who had anything to do with economics, wherever they were; law school, business school, Hoover, economics department, wherever. So they all came, everybody had a good time, but after it was over I said to Mo, "That party could never have taken place at MIT [Massachusetts Institute of Technology] or the University of Chicago," where I had been. He said "Why?" I said, "Because we're introducing people to each other who didn't know each other, and we have to do something to create a community." Then they needed to do something to hold Mike Boskin here, and he was interested in policy. So those ideas joined together and this center was created, and we did something unique. We decided we'd have two advisory groups: one that would help raise money and the other that would be intelligent people around the Silicon Valley area, a lot of bright people who aren't economists, and get them to come and meet with us and let the economists explain themselves to these bright people, so you'd have to get away from the economic lingo and talk sense. It's proven to be very good. We've got a lot of people who come to the sessions and you have to talk economic policy to intelligent people who aren't economists. It's good for you. They had weekly luncheons for anybody that wants to come that's interested in economics. I think it's worked out very well.

04-00:09:34

Burnett:

Has it produced publications, or indirectly?

04-00:09:36

Shultz:

Yes. Well, individuals who do work publish their books, and then it has a periodic publication of things that it happened to be working on.

04-00:09:52

Burnett:

It sounds almost reminiscent of the old National Planning Association and Committee for Economic Development, but it's obviously a very different world, but at least in terms of its spirit.

04-00:10:08

Shultz:

Well, it has a teaching role. It's part of the university very much. The CED was businessmen and this is academics, but academics from all around the university, getting away from the stovepipes that people tend to be in.

04-00:10:27

Burnett:

Right, and people get very siloed. Good things can come from talking to people outside of your discipline and you could learn about what's happening in the Valley. Technology seems to be a refrain for you and it's something that seemed to be part of your—it seemed to be part of your explanation of President Reagan's...

04-00:10:56

Shultz:

Well, I spent a long time at MIT and that's what MIT is about.

04-011:05

Burnett:

Right, and you could get a sense, almost an infectious sense of optimism about what's coming down the pipeline, and this seemed to be part of Reagan's foreign policy with the Soviets, and explaining as you did, this is what's happening in the United States, this is what's happening all over the world. You were talking about an Information Age back in the eighties, that this was coming down the pipeline and this was going to reorder and reorganize the world.

04-00:11:35

Shultz:

I wrote a book in, I think it was 1962, called *Management Organization and the Computer*, with a colleague named Tom Whisler, University of Chicago. The argument of the book was, to management, "you people are using this device to do payroll and to keep personnel records. Wake up, it's going to change the way you manage things." My mother bought a copy but she didn't read it, and that was the extent of our—it was a flop, but it was very prophetic because it turned out to be on the mark. But I'd been interested in the subject a long time and in fact used the argument with the Soviets. I think we talked about this the other day, that this is the reason why they should open up.

04-00:12:31

Burnett:

And you brought out charts to explain that, globally, this is what's happening. And so in the 1990s, there is an information revolution in full flourish, and you're right at the heart of it in the Silicon Valley. On the policy and political front, obviously the Democrats are in the Executive Office, but in 1994 there's the Contract with America. Can you talk about some of the political things that unfold in the United States in the 1990s, that were tied to some of the things that you were working on way back in the sixties and seventies?

04-00:13:25

Shultz:

Well, of course the nuclear area, I continued my interest, carried over from the Reagan years, when he drove hard for eliminating nuclear weapons. It was very satisfying to see the numbers go down. They're about a third of what they were at the time of the Reykjavik meeting between Reagan and Gorbachev. But now we've hit a bad spot, in my opinion, where it's moving the other direction and we're scrambling to understand that and do what we can to turn it around.

04-00:14:06

Burnett:

What do you think is happening? Obviously, [Vladimir] Putin is moving in a kind of aggressive fashion. What is happening on the U.S. side, to either help or hinder that process?

04-00:14:27

Shultz:

Well, we have an ambivalence now. There is still concern to get to a world free of nuclear weapons, but that looks pretty far distant, and nuclear weapons

are in the process of proliferating. So I think the disposition now is to be sure that our stockpile is a strong, reliable, safe, secure stockpile, that people know we have. And we've always said, as long as there are nuclear weapons, the United States should have a strong stockpile.

04-00:15:05

Burnett:

Right, right. And I suppose, quite obviously, there's a danger in less predictability. I guess the Soviets—well, let me put it as a question. Were the Soviets a much more knowable potential enemy in the 1980s?

04-00:15:27:

Shultz:

Well, in the 1980s, it was a sort of bipolar world. Now, you think that many countries, more and more countries have nuclear weapons or aspire to get them. So the more it spreads, the more chances there are that one will go off somewhere. It's also clear that even a moderate nuclear exchange will have global implications with what it does with the atmosphere.

04-00:15:55

Burnett:

Absolutely. On the domestic front in the 1990s, Congress and President Clinton worked together and put together the Welfare Reform Act. How did you feel about the passage of that act in the context of your work in that area in the 1960s and '70s?

04-00:16:23

Shultz:

Well, it was a very good piece of work and it confronted the problem of when people go to work and they've been on welfare, and you remove the welfare payment, it is like a big tax. Way back in the Nixon administration, Pat Moynihan and I designed what was called the Family Assistance Plan, which was proposed by President Nixon. But at any rate, that was the first time we confronted that issue and dealt with it, we had a way of dealing with it. It was interesting to me, to see finally, something passed that I thought was a very nice piece of work.

04-00:17:07

Burnett:

We didn't talk about this much but how was your working relationship with Pat Moynihan? What was he like to work with?

04-00:17:14

Shultz:

He was fun and smart and interesting, and we worked together on the Family Assistance Plan, we worked together on all kinds of questions. He and I did the school desegregation in the South together. Pat was a great guy.

04-00:17:37

Burnett:

Turning towards the 2000s, of course there's the shadow of 9/11, which casts a big pall over even the present day, but prior to that, you're known as an advisor to George W. Bush, in his 2000 election. The story is that you were part of a group that was called the Vulcans?

04-00:18:12

Shultz:

No, that was a different group.

04-00:18:13

Burnett: That was a different group.

04-00:18:15

Shultz: I was not in any formal group, but I was supporting him.

04-00:18:21

Burnett: What was the nature of your advice to him as he looked forward to his bid for the presidency?

04-00:18:37

Shultz: My relationship with him started when he was governor. This was before he was reelected. He came to San Francisco to talk to a Republican group that I was chairman of that evening. We found that he was coming down here the next day to a luncheon, and to a late afternoon event of some kind. So we said why don't you come down early and come to my house on campus, and I'll gather some of the usual suspects and we'll have a discussion. So that's what happened. I got Condi Rice and Marty Anderson and I don't know, a bunch of people, and we had a very spirited discussion. I think Condi had met him before but never really had an engaged discussion with him. She was very impressive and that's where they connected. Afterwards, I said, "Are you going to run for president," and he said, "Well first of all, my family has to think it's a good idea, and then I have to feel there's something that I want to accomplish." I liked that a lot, so I encouraged him. He has a natural flare for politics and for working with people.

04-00:20:08

Burnett: And so those served him well during that period.

04-00:20:11

Shultz: But I didn't ever have any formal advisory role, either when he was in office or before.

04-00:20:17

Burnett: And in terms of the development of his foreign policy, did you express views on that or did you have views on the debate, I guess, between unilateralism and consensus building? What was your take on the 2000s period?

04-00:20:37

Shultz: Well I thought he was building an effort to be sort of Reaganesque. I remember he gave a speech down at the Reagan Library that I thought was a pretty good speech. I didn't have a hand in it but I went and listened. So I was available to reflect on things, but again, I was never in any kind of formal role.

04-00:21:07

Burnett: When you were here at Stanford, you had a couple of key collaborations. One resulted in a book, *Putting Our House in Order: Social Security and Healthcare Reform*. Can you talk about how that project came about and when did you—I guess you never stopped thinking about those things, but when did

some of the problems that you engaged in become really apparent to you, that you wanted to do something about it?

04-00:21:37

Shultz:

Well, John Sheldon was head of the SIEPR that we talked about earlier, and he and I were good friends and we talked about these issues, and we said well, let's write these ideas down, so that we worked at it and produced that book. I think our healthcare system would be better if somebody had read it.

04-00:22:04

Burnett:

I'm sure folks have read it. This is a reflection on changing demographic issues—

04-00:22:21

Shultz:

Well, demographics are part of it, but you see that from the Social Security standpoint, the ratio of those who are drawing benefits to those who are contributing to the pot, that ratio is getting more and more heavy toward those who are receiving benefits. So the present formula, which has the benefit levels going up, is not something that can be sustained. You can sustain keeping them where they are in real terms, and that's where we ought to try to go, I think, that's what we talk about in the book.

04-00:23:02

Burnett:

And for healthcare reform as well, you talked about a number of policies that would help with the spiraling cost. Is this rooted in your concern about controls?

04-00:23:20

Shultz:

Well, a fundamental problem with our healthcare system is that the effort to control costs comes basically down to wage and price controls, and you know, from tons of experience, that what you control, you get less of. So you have a system that's going to produce less healthcare supply and more demand. What more do I need to say? We already see a two-tier system where many doctors won't take Medicare or Medicaid patients, so they don't want to get into the system.

04-00:24:04

Shultz:

So I think it's a real problem and it's much more difficult to solve conceptually than Social Security, but basically, I think we need to move more and more toward a system where consumers have resources and they decide what they want to spend them on. So with demand prices and outcomes and information, and gradually, you'll get a more market-based sense of the healthcare system, and that's the way you get costs under control, I think.

04-00:24:42

Burnett:

And since that was published, of course coming into the Obama administration, there was the passage of the Affordable Care Act. Have the problems changed, or do you think the fundamentals are still there?

04-00:25:00

Shultz:

The basic problems are still there. The one thing the legislation did nail and I think everybody should take a deep breath and say this is settled, that is there should be access of everybody to the healthcare system in some organized way, universal coverage, and the question is how to bring that about. There are various ways of doing it, and I think there's a way that's much better than what we're now doing.

04-00:25:37

Burnett:

Would you care to elaborate on that or would that just take another—

04-00:25:38

Shultz:

No, it's what I said before. I think it's basically putting more resources into the hands of consumers, and you do that through what's called a health savings account, and the Medicare and Medicaid systems ought to be adjusted so that adequate health savings accounts can be provided to those who are on those programs.

04-00:26:04

Burnett:

And of course one of the big seismic shifts in the world economy was the crisis in late 2007/2008, that is in some ways still with us. You and others came together and developed a response to the early responses to this. This was a very quick turnaround. So in 2009, you worked with others to put out *Road Ahead for the Fed*. Can you talk about how that project came about and perhaps your initial response to the financial crisis as it started to unfold. Based on your experience, what did you think was going on? What were the big risks?

04-00:27:01

Shultz:

Well, I thought that we were heading for problems, and you could sort of see it. I remember Hank Paulson was here, he was Secretary of the Treasury, and I said, "Hank, you should make a speech explaining what's happening to the American people and what your strategy is for dealing with it, and why the strategy is going to work, so people will feel we know what we're doing. I think it was very badly handled. We went and we had a bailout of Bear Stearns, which created that mentality. I had fought that mentality earlier and I thought with Bear Stearns, they should have let it fail, and do all the things around it to mitigate the consequences of that, in a much more healthy way. Then we had a gigantic bailout that was justified on the grounds that this money would be used to purchase these assets that were underwater, and everybody knew there was no way to do that, because you didn't know what value to put on them. So that's a little scary, to appropriate huge amounts of money to do something that everybody knows you can't do. So of course, the money was used to shore up the big banks, and that didn't make too good of an impression on Main Street. So I think there were a lot of things about the way it was handled that were unfortunate. I'd put it that way.

04-00:28:37

Burnett:

Although there's incredible political divisiveness in the United States these days—it's far more partisan than it was when you were in public service—there seems to be a consensus that the left progressives and the Tea Party seem to agree on, that the crisis was mishandled in terms of shoring up the banks.

04-00:29:13

Shultz:

I think it's important obviously, to have a healthy financial market, but I don't think you get that by shoring up the ones that haven't done a good job.

04-00:29:30

Burnett:

So the *Road Ahead for the Fed* project, how were you involved in that and how did that come about?

04-00:29:41

Shultz:

Well, we had some conferences here on the subject and John Taylor was from our standpoint, was the key leader in that, and he's a really good guy, a good economist and a good kind of colleague to talk with and so on. So I took part in that project.

04-00:30:09

Burnett:

What would have been the basic—I mean, there are ten or eleven different articles in this book—what do you think would have been the sound sort of counterfactual to the Obama administration's actions? Is it like you said, just let some of the poorly performing banks fail and then create rules or some kind of predictable policy that the Federal Reserve would have going forward?

04-00:30:45

Shultz:

Well by the time the Obama presidency started, I think the damage had already been done. There was already a bailout mentality. Already a huge appropriation was sitting there to be used, so they sort of doubled down on the policies they inherited.

04-00:31:11

Burnett:

After the *Road Ahead to the Fed* book was published in 2010, the Dodd-Frank Act was passed, and there are a number of policies in there, a number of actions, as part of that act. Was that somewhat satisfying to you or were there parts of it that you were not happy with?

04-00:31:40

Shultz:

I thought the Dodd-Frank law was bad from the beginning. It's very large in scope, with a maze of regulatory activities that enlarges the scope of regulation and increases the uncertainty about exactly what is going to happen. I would have preferred a very simple change. Have important requirements of the amount of equity you hold in comparison of your size, and let that rise some as your size increases, and put restrictions on leverage, the use of leverage. If you do those things, you have assurance that the financial institutions will be okay.

It's interesting that none of the big banks failed during the Great Depression, because they had adequate capital. So that's a much better way of doing it than this over-the-shoulder regulation, which never works. Long ago, a wonderful man named George Stigler, who was a colleague at the University of Chicago and also out here at Hoover, made a big study of regulation and he coined the phrase, "regulatory capture." It was all part of saying that regulation doesn't really do the job if what you're doing is over-the-shoulder type regulation. And now we have regulations where the regulators have tons of people and all the banks looking over people's shoulders. That's no way to do it.

04-00:33:30

Burnett:

There were a number of Chicago folks who were here at the Hoover Institution. George Stigler was here, Milton Friedman was here. Were there others?

04-00:33:44

Shultz:

Gary Becker.

04-00:33:45

Burnett:

Gary Becker.

04-00:33:47

Shultz:

They were all tremendously influential. Now, John Cochran has just arrived here as a full-time person.

04-00:33:57

Burnett:

One of the big policy issues, global issues, is of course climate change, and there's a tremendous debate about climate change, and mostly now what to do about it. You have taken an interest in this. Can you talk about the evolution of your interest in and understanding of climate change, and the kind of policy implications of the science?

04-00:34:36

Shultz:

I've been interested in the subject of energy. Energy is a strategic resource. There are national security implications, there are economic implications, there are environmental implications, and you don't want to leave any of those three out of your thinking. I had experiences that I talked about earlier, with the Cabinet Committee on the Oil Import Program, when I was Secretary of Labor, and then when I was at Treasury, the Arab oil boycott and what we did. Then, in the mid-eighties, the Montreal Protocol, which basically confronted the issue of the depletion in the ozone layer. We used the insurance-policy concept to get people onboard and it worked, and this was a case where it turned out that the scientists who were worried were right and the Montreal Protocol insurance policy came along just in time.

Nowadays, I look at this issue, and at least in my opinion it's clear enough that the climate is changing. It's getting warmer, and there are real consequences to that. For instance, we had a brilliant biologist who's here, her

name is Lucy Shapiro, and she worries that tropical diseases will come north and we're not ready for them. I read in this morning's newspaper, that a form of beetle had migrated north and was potentially going to be a problem in the Bay Area. So there are consequences of very great substance. So I say, why don't we take out an insurance policy, like Ronald Reagan, and the insurance policy isn't even that expensive? Support energy R&D with a good federal program, but the amount of money involved is inconsequential in the federal budget. But it's interesting to me, since I chair the advisory committees both at Stanford and MIT, and so I see what's going on, they have about three times the private money to federal money, because private money, if they see something serious, they want to know what's going on and they want to contribute. So it's a good system. I hear what these guys are doing and they're getting somewhere.

04-00:37:22

Shultz:

They're making real headway and we're going to see some important advances. So that needs to be kept going strongly. And then I would say if carbon is a problem, and it is in my opinion, let's put a tax on it. Let's level the playing field, so the forms of energy that produce carbon have to pay for that, their price has to reflect that. So, if you produce a lot of carbon, that gets included in your price and that's gets compared with forms of energy that don't. I think that's a fair enough proposition. So, I've advocated a revenue-neutral carbon tax. I wrote a piece in the *Wall Street Journal* on it, with Gary Becker, and we said if you make it revenue neutral, that's not going to be a fiscal drag on the economy and it will do the job.

04-00:38:19

Burnett:

And there's also the prospect that if the United States is ahead of the game in green-energy options, whether that's some kind of carbon management, that they can be first out of the gate with new technologies that can then be exported around the world.

04-00:38:38

Shultz:

Absolutely.

04-00:38:39

Burnett:

Right. One of the concerns, I suppose, is for the existing industries that are involved. I know the coal industry is up in arms about the Obama Administration's regulatory—what they see as regulatory overreach. It's getting impossible for them to get permits to operate. So, would there be policy provisions to help sort of shepherd the coal industry in new directions?

04-00:39:15

Shultz:

If you regulate, you have problems, people don't like it and you don't usually get it right. So my idea of a carbon tax just says put a price out there and let the market react to the price. Maybe somebody will come along and figure out how to capture and sequester the carbon from the coal. There are plants that

do it and it's expensive, but maybe they can get the price down. But anyway, let people react to a price instead of regulating them all the time.

04-00:39:50

Burnett:

You mentioned the MIT Energy Initiative, if I have that right, and then there's an equivalent number here at Stanford. Can you talk a little bit about those organizations and your work with them?

04-00:40:04

Shultz:

Well the two universities are rather different in the way they go about things, but MIT has an energy initiative that's managed. Ernie Moniz, now the Secretary of Energy, was head of it until he got his current post. Now, a very brilliant chemist named Robert Armstrong is managing it, and it's very impressive, and they've gotten lots of scientists interested and they have funds, lots of student interest and energy clubs on campus. Practically every part of the university has gotten involved in one way or another. Stanford has pretty much the same kind of broad involvement, but it's less managed, but still, there is some central money. Money tends to give people some influence on what people do, but it's run very well now, by a woman named Sally Benson here. Lynn Orr used to run it. Lynn's now the Undersecretary of Energy. But the basic point is, scientists who are interested in the subject, and engineers, are able to get funds to push their research in this area, and when their research looks promising in the sense that something substantive can come out of it operationally and scalable, then companies come along and grab that and do something with it.

04-00:41:50

Burnett:

Right, absolutely. Does your economist's long view kick in when you think about energy transitions? Do you think that people have realistic expectations about new sources of energy? What's your view on the notion of energy transition and the timelines that are out there?

04-00:42:16

Shultz:

Well, the energy market is huge, so it's not going to change like that, but it can change perceptively. It's been interesting, how the emergence of the fracking technology has led to a pretty rapid change in the United States, particularly in the use of natural gas, which has been a boon from the standpoint of the climate.

04-00:42:57

Burnett:

There are so many of these different types of subjects and projects that you've been involved in. From your history as an economist, as a public servant at these high levels and this wide range of different assignments, can you talk a little bit more about other aspects that you think are on the horizon for the future of the world and the United States? What's most burning and important for you?

04-00:43:35

Shultz:

Well I think the health arena is very important and I see a few things around here that it seems to me are going to make a difference and lead to the rearrangement of the health system along the lines I've talked about earlier. So I think we can foresee some improvements there. We have the problem now that everybody wants to pound down the price of drugs, so it's just like everything. If you want to get rid of innovation, tax it, regulate it, beat it up, and you'll turn it off. So we have to be careful that we don't have that happen. We've had good success in innovation in the drug industry in the United States, and part of it is because the companies have been able to charge good prices and make some money. But if you say they shouldn't make money and they can't charge those prices, then they won't fund the research and you won't get the innovations. I'd rather get the innovations.

04-00:44:47

Burnett:

I guess what some critics have been talking about is the extent to which public money, taxpayer money, goes into research and development of new drugs. The state university system, the NIH [National Institutes of Health] and all of this federal and state money that goes in [to drug development], and that the notion of private innovation—it's true, drug development is important—but sometimes you have me-too drugs: the same exact molecule, but they are just prescribing it for something new and patenting it. So there are question marks, I guess, over the patent regime and the nature of those incentives. So you do want innovation, you do want to create policies that spur innovation, but I think from the critical viewpoint, they're worried about whether this is indeed innovation. The thing in the news most recently, about the \$750 pill. It's a sixty-two year-old drug that's just been reallocated to a new therapeutic regime, and it just passed from one hand to another.

04-00:46:02

Shultz:

I'm not going to try to defend every price on every pill. On the other hand, the United States is by far the leading producer of new drugs that are very powerful and make a huge difference. So why is that? What's happened to Europe? Why has it gone to sleep on this? It's because they do just what you want to do. They want to say well, there was a dollar of federal money or some kind of money in this, so we want you to lose money on every pill you produce and give it away. Thanks a lot, see you later.

One of the companies that I know of that's been very active in the HIV/AIDS area, we practically give our drug away to people in the poor countries of the world and we have to differentiate. Then people say, "well how come I have to pay more because I'm here, than somebody over there?" Well the reason is that they can't pay, but we're trying to be helpful to them, and we can do that because we make money on the drugs in the United States and some other countries.

04-00:47:37

Burnett:

Yeah, absolutely, and in some cases the lower-priced drugs in those counties get smuggled out and end up—

04-00:47:46

Shultz:

But you try hard to make it hard for that to happen, but there's a lot of pressure to say well, if you're charging one over here and ten over here, why can't we do that? Well, there's a reason why you've done that. You're trying to make the drug available to people with very low incomes.

04-00:48:08

Burnett:

Theodore Schultz once said, apropos of price supports in the agricultural sector, he said prices are not goals, they are incentives, and this seems to be this basic kind of price-theory orientation to a lot of our problems in the world, and the solutions thereto. I was wondering if you could reflect for a moment on the long-run influence of the kind of economics that was nurtured at the University of Chicago, but also at other places, and the Hoover Institution is one of them. Can you talk about this long-time influence over the last fifty years, and something perhaps about its legacy worldwide?

04-00:49:09

Shultz:

Well, I think basically, there is, fundamentally, economic theory, and it isn't different from one place to another. It's supply and demand and elaborations of that idea, and all economists see that. And then you can say well, if you're going to have government intervention, then what are the economic impacts of that intervention? You can have intervention in the bailout sense or in the direct regulatory sense. You can have intervention in the sense of running big deficits, but then you have to ask yourself, what's the price of those deficits? Right now for instance, in the United States, we've run up huge deficits, big debt, and you don't notice it because the Federal Reserve is keeping interest rates at practically nothing. When interest rates get back, as eventually they must, to some more reasonable level, the burden of that debt will be huge. It will be a huge proportion of the budget, and between that and the entitlement payments, there won't be any room to do anything else. So we're heading for a point where somebody's got to roll up their sleeves and do some difficult things.

04-00:50:30

Burnett:

Some people who could focus on problems but not so much on principle.

04-00:50:41

Shultz:

Well back in the Reagan days was the last time Social Security was done, and this was all Tip and the Gipper. Tip O'Neill was the leading Democrat, and he and Reagan made a deal where a committee would be formed. Alan Greenspan headed it and it was agreed that whatever they recommended would go into effect unless one House or the other voted it down. So nobody had to vote for anything and they made some significant reforms. Call it a copout but it worked.

04-00:50:21

Burnett:

Right, right. Is that something that is—it seems to be much more difficult to achieve these days. Everyone talks about reaching across the aisle, but it seems to recede further and further, as a kind of possibility.

04-00:51:43

Shultz:

I'm not there and what I read is beyond my comprehension, but I do think that in Washington, we'd all be better off if they would go back to doing things the old-fashioned way. Right now, you have these votes on continuing resolutions. That's a copout by the Congress. The Congress has the power of the purse, and you exercise that power responsibly by having hearings and going into all the sub-components of the government, and discussing what the priorities ought to be, and what should be supported and what not. It's very operational. Having been Director of the Budget and putting budgets together, I know that, and operational discussions, they tend not to be very partisan. So if you got more in the habit of doing it that way, it would take some of the animosity away.

04-00:52:44

Burnett:

Mr. Shultz, I want to thank you very much for your time and for talking with us.

04-00:52:54

Shultz:

Thank you.

[End of Interview]

