More than a Caretaker: The Economic Policy of Gerald R. Ford

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This essay examines the reaction of the Gerald Ford administration to the deepening recession of the mid-1970s and the unprecedented challenges of stagflation. This includes an analysis of the decision-making process within the White House, the administration's relationship with Congress, and the abandonment of almost 40 years of Keynesian orthodoxy that would see President Ford introduce a new conservative economic agenda as he sought to adapt traditional Republican economics to deal with new economic circumstances. In short, I argue that Ford was far more than the "accidental" or "caretaker" president that popular history recalls.

The reactions of politicians and the media to the death of Gerald R. Ford, the thirty-eighth president of the United States, were almost universal in their predictability. Terms such as "accidental" or "caretaker" president were widespread, while most agreed with President George W. Bush that, "For a nation that needed healing and for an office that needed a calm and steady hand, Gerald Ford came along when we needed him most" (Bush 2006). Though much has been made of Ford's integrity and honesty, there has been little discussion of his significance in terms of policy or even his legacy. But, as Fred Greenstein has argued, "Presidents and presidential advisers who dismiss the Ford experience will miss out on a rich set of precedents about how to manage the presidency. More fundamentally, they will fail to take account of the personal strengths of a chief executive who had an impressive capacity to withstand the pressures of office" (2000, 193). No more so was this true than with regard to economic policy.

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Most studies of post–World War II economic policy in America have defined a number of key stages in the development of the political economy, beginning with President Franklin D. Roosevelt (see., e.g., Hibbs 1987; Morgan 1995; Stein 1994; Spulber 1989). The Roosevelt presidency is significant because of its response to the Great Depression, which dramatically increased the role of the federal government in the management of the American economy as it sought to reverse the waste of human and material resources by deliberately creating an expansion of output, employment, investment and consumption. A major factor in Roosevelt's approach was the theories of British economist John Maynard Keynes, and particularly his *General Theory of Employment, Interest, and Money*, written in 1936.[1] Keynes rejected the classical nineteenth-century laissez-faire notion of a self-adjusting economy and argued that government had to intervene to correct market problems by manipulating aggregate demand to prevent unemployment and inflation.

As economist Herbert Stein noted, Keynes influenced politicians, economists, and intellectuals, as his theory appeared to offer the promise of economic prosperity and growth. This helped make expansionist fiscal policy the basis of an economic consensus that would last for 40 years. This was institutionalized and supported by the 1946 Employment Act, which committed future governments to seek "maximum employment." Observed Stein, "Without Keynes, and especially the interpretation of Keynes by his followers, expansionist fiscal policy might have remained an occasional emergency measure and not become a way of life" (1994, 39).

From 1945 through the early 1970s, the U.S. economy enjoyed international preeminence, and economic policy generally was successful at maintaining a strong growth rate, high employment, and low inflation. Such was the apparent success of Keynesianism that by the 1960s, economists and politicians alike believed that the economy could be fine-tuned to eradicate economic imbalances and make the business cycle obsolete (for insightful comments on this era, see, e.g., Okun 1970; Stein 1994; Tobin 1974). By the early 1970s, however, increasing competition from abroad, the economic consequences of the Vietnam War and the Great Society, and the oil price inflation that followed the OPEC price hike of 1973 had severely weakened the economy.

1. Initially, the Roosevelt administration was reluctant to completely adopt Keynesian economics. The president was prepared to tolerate a budget deficit in the short term, but he did not embrace the massive spending programs advocated by Keynes. In the opinion of historian William Leuchtenburg, Roosevelt felt that "[t]he Keynesian formula for gaining prosperity by deliberately creating huge deficits year after year seemed to defy common sense" (1963, 264). The result was halfway Keynesianism, reflecting, to some extent, the divide within the administration between those who were converted to Keynes and those who remained staunch budget balancers. Though fiscal policy saw public spending increase in the 1930s, its net effect was far too small to stimulate recovery and cannot be regarded as truly Keynesian.

The postwar dominance of Keynesianism began to be undermined by slow growth and the emergence of stagflation, which simultaneously produced unprecedented high inflation and rising unemployment. Skepticism about the government's ability to manage the economy increased, not least from the monetarist school led by Milton Friedman.[2]

As unemployment and inflation rose together, there was no longer a clear choice between larger deficits to stimulate the economy at the price of higher inflation, and lower deficits to reduce inflation at the risk of recession. The Phillips curve, which expressed a simple trade-off between inflation and unemployment, no longer seemed valid. Inflation, which had remained relatively stable at 0.5%–2% between 1949 and 1965, rose to 12% in 1974. Unemployment, which had remained below 4% during the John F. Kennedy and Lyndon B. Johnson administrations, rose above 5% at the beginning of 1974. This came at a time when the United States' share of world trade had fallen from 25% in 1948 to 10% at the beginning of the 1970s as America was challenged by the economic miracle of postwar recovery in Europe and Japan and the developing industrializing economies of Asia and Latin America (see Eckstein 1978; Hibbs 1987; Morgan 1994; Spulber 1989). The postwar "long boom" had run its course, and Americans now felt the dramatic repercussions of the end of American economic hegemony. It was at this crucial moment in America's political and economic history that Gerald Ford became president on August 9, 1974.[3]

He did so under a unique and difficult set of circumstances. Most dramatically, he was unelected. As the minority leader in the U.S. House of Representatives, he first had replaced Vice President Spiro Agnew after his resignation in October 1973, and then succeeded the disgraced Richard M. Nixon. As the one-time congressman for the Fifth District of Michigan, Ford assumed the highest office in the land with no national mandate at a time when the balance between the executive and legislature in the aftermath of Watergate and Vietnam was shifting dramatically to seriously undermine the authority of the president.

Ford also inherited from Nixon what the *New York Times* described as "the worst inflation in the country's peacetime history, the highest interest rates in a century, the consequent severe slump in housing, sinking and utterly demoralized securities markets, a stagnant economy with large scale-unemployment in prospect and a worsening international trade and payments position" (Ford 1979, 151).

Ford had a great interest in, and knowledge of, economic affairs. This had begun at the University of Michigan, where he had taken courses in economics, and had continued

2. The monetarists rejected fiscal policy as the determinate of growth and demand, advocating a free-market, private-enterprise economy and reducing the role of government. For them, the money supply was the major determinant of gross national product in the short term and of prices in the long term. Not surprisingly, many economists criticized their model as concentrating too much on monetary tools at the expense of fiscal instruments. See, e.g., Friedman and Heller (1969).

3. Ford had never sought the presidency. Since first becoming a congressman, he had set his sights on being Speaker of the House. During his 25 years in the House, however, he enjoyed only two years, 1953 and 1954, as a member of a majority. By 1973, Ford believed that his goal was no longer attainable and agreed with his wife that he would run one more time for Congress in 1974 and then announce his retirement from public life early in 1975. Events in the Nixon White House radically altered his plans (see Ford 1979, 77, 99).

during his 25 years in Congress, where he had served on the House Appropriations Committee for 14 years and then as minority leader for nine years.[4] As president, he would be much more engaged in economic policy than his predecessor.[5]

Ford was a firm believer in the marketplace, convinced that a healthy economy could only be achieved through the revitalization of the private sector, not through government fiat or government-created jobs. He opposed the expansion of the federal government that had occurred since the New Deal and the postwar economic policies that had followed, particularly under the New Frontier and Great Society programs of Kennedy and Johnson.[6] He believed that the federal government had a responsibility to help create an environment that would encourage growth and discourage the forces of inflation, and part of the solution to achieve this was deregulation and reducing the role of federal government (see, e.g., Ford 1978, 8). As he explained in his autobiography, "On economic policy I was a conservative—and very proud of it. I didn't believe that we could solve problems simply by throwing money at them" (1979, 66).[7]

Ford biographer Yanek Mieczkowski argues that this led to comparisons with Dwight D. Eisenhower, whom Ford described as "one of his presidential heroes" (2005, 82). Like Ford, Eisenhower believed that balanced budgets, spending restraint, and the control of inflation were the essential prerequisites for sustainable economic growth. In his 1959 State of the Union message, he warned, "If we cannot live within our means during such a time of rising prosperity, the hope for fiscal integrity will fade" (*Public Papers of the Presidents* 1960, 12). But the Ford administration would differ significantly from that of Eisenhower, not least in terms of the context of economic policy.

As economist Nicolas Spulber argues, Eisenhower, like his predecessor Harry Truman, accepted as a key role of the federal government's economic policy "the moderation of cyclical swings," involving "partial compensation in the downswing and partial restriction in the upswing" (1989, 25). This countercyclical policy, which aimed at stabilization by avoiding both unemployment and inflation, was influenced substantially by Keynesian economics. In short, Eisenhower was trying to uphold anti-inflationary imperatives when the high employment and strong growth ideals of the Keynesian postwar orthodoxy—as operationally embodied in the Employment Act—were still dominant (see Morgan 1990; Sloan 1991).

4. James Cannon, assistant to the president for domestic affairs, believed that Ford's experience in Congress had made him "a serious student of economics in the Government" who understood economics, "not just in the theory but he had understood its relationship to Government" (Cannon, interview with author, November 16, 1994).

5. Nixon's lack of involvement in economic policy was legendary. For example, Paul McCracken, Nixon's chairman of the Council of Economic Advisers, described the president's interest being akin to the "dutifulness of a third grader" (1996, 166).

6. According to Leuchtenburg, "It has been said that the shortest book in the world is the collection of Irish haute cuisine. A volume of the impact of Franklin Roosevelt on Gerald Ford would be even briefer" (1983, 173).

7. Ford's voting record before becoming president had showed a distrust of federal social programs, a belief in revenue sharing, and mixed views on civil rights and labor legislation. He voted against most of Johnson's Great Society legislation and against increases in the minimum wage. As the ranking Republican on the Defense Appropriations Subcommittee, he was a strong supporter of expenditures for defense (see Bonafede 1974).

During the Ford administration, however, both Keynesian economics and the Employment Act would be substantially undermined. Burton Malkiel, a member of Ford's Council of Economic Advisers, remembers that Ford's economic advisors felt that "the simple Keynesian model was inadequate."[8] As a result, developing a new conservative economic policy would become a central aim of the administration. As William Gorog, Ford's deputy assistant to the president for economic affairs, later observed, "Everything had been turned over on its head and nothing was really effective any more."[9]

It was this that would define Ford as being different from Eisenhower, and it is this that makes Ford important in economic policy terms, because he would become the first president to break openly with the Keynesian precepts of postwar political economy when the long postwar boom clearly had ended. His immediate predecessor, Nixon, may have questioned Keynes and targeted inflation, but as Allen Matusow notes, he lacked the consistency to see through any strong economic convictions, zigzagging from inflation, then to unemployment, and then back to inflation, failing in the process to establish a legacy of economic policy.[10]

From his very first address as president to Congress on August 12, 1974, Ford sought to rebuild the political bridges that Nixon had destroyed and to take the initiative on economic policy. He proclaimed his motto in relation to Congress to be "communication, conciliation, compromise and co-operation . . . I do not want a honeymoon with you. I want a good marriage." He singled out the economy as the immediate problem, informing Congress, "My first priority is to work with you to bring inflation under control. Inflation is our domestic public enemy No. 1" (*Public Papers of the Presidents* 1975, 9).[11] The weapons in this battle would be monetary and fiscal restraint. Ford believed that budgetary control was essential and that the government should take the lead in showing fiscal restraint by cutting federal expenditure (*Public Papers* 1975, 9). The difficulties that Ford faced were accentuated politically by Congress being controlled by a Democratic majority that sought to put unemployment before inflation and called for greater stimulation of the economy.

Ford would play a major part in shaping the economic philosophy and policy of his administration, and he was helped by a handful of advisers who shared his conservative, free-market philosophy. The secretary of the treasury, William Simon, who had served in the Nixon administration, was the staunchest conservative. A champion of the beliefs of John Locke, Adam Smith, and Frederick Hayek, Simon believed the free market was both a political and an economic necessity, regarding the greatest threats to free enterprise and

8. Burton Malkiel, interview with the author, November 22, 1994.

9. William Gorog, interview with the author, November 22, 1994.

10. Wrote Matusow, "Nixon had no firm convictions on economic policy except that prosperity was essential for wining elections and the necessary precondition for creating the New Majority" (1998, 303-4).

11. Ford's address did not take many by surprise. As vice president, he had described inflation as "a cancer that could cause a lingering death for the industrialized world." Though "personally dedicated" to controlling inflation, he believed government must resist a "quick fix" by a tax cut, which, he believed, would cause more, not less, inflation. See the Remarks by Vice President Gerald R. Ford to the American Bankers' Association, Greenbrier Hotel, White Sulphur Springs, West Virginia, April 26, 1974, folder "Ideas for Speeches and Statements," Box 71, L. William Seidman Files, Gerald R. Ford Library (GRFL).

society to be inflation and federal expenditure. In characteristically dramatic language, he said of inflation, "History is littered with the wreckage of societies that failed to come to grips with this contagion."[12] For Simon, inflation, recession, and unemployment were the result of irrational government manipulation of the economy, particularly deficit spending, inflation of the money supply, regulatory policy, and wage and price controls (Simon 1978, 96-97).

L. William Seidman, assistant to the president for economic affairs, was more moderate than Simon, though initially he felt that unemployment was a price the country had to pay to defeat inflation (*Congressional Quarterly* 1974). Crucially, Seidman was a pragmatist, more influenced by political necessity than by dogmatic economic philosophy, an outlook that would make him an invaluable member of the team.

Ford's chairman of the Council of Economic Advisers was Alan Greenspan, who replaced Nixon's outgoing chairman, Herbert Stein. Greenspan was a strong laissez-faire capitalist, a conservative, and a disciple of the controversial free-market philosopher Ayn Rand (Reichley 1981, 388).[13] He believed fiscal restraint to be the most important remedy for the country's economic problems, arguing that increased federal expenditure and bureaucracy had strangled the free market, creating rapid growth, higher taxes, and price instability. He saw the roots of economic malady in the economics of the New Deal and opposed economic fine-tuning and the stop-go policies that had characterized the Walter Heller and Arthur Okun chairmanships of the Council of Economic Advisers during the presidencies of Kennedy and Johnson.[14] Instead, he advocated a steady fiscal and monetary program to nurture long-term growth.

Ford said of Greenspan, "It didn't take me long to appreciate the contributions he could make. No one had a better ability to sit in a meeting, summarize the points that people around the table had made, and then lay out the options for me" (1979, 152-53). According to Greenspan, he and Ford "grew very close," adding, "Ford wanted to slow the pace of policy action, simmer down the deficit and inflation and unemployment, and eventually achieve a stable, balanced, steadily growing economy . . . these were very much my views too" (2007, 73).

To meet the challenges posed by the complex economic problems that the country faced, Ford reached beyond the traditional path of relying on the Treasury and close economic advisers by creating the Economic Policy Board (EPB) on September 28, 1974. The board was given responsibility for providing advice to the president on all aspects of

12. "Inflation, Controls, Energy, Taxes: An Interview with the Honorable William E. Simon," news release based on a briefing on the economy to the press on December 4, 1974, folder "Q's and A's, October 1974-January 17, 1975 (1)," Box 85, L. William Seidman Files, GRFL.

13. Ayn Rand's best-known work is *Atlas Struggle* (1957). She was present when Greenspan was sworn in as chairman of the Council of Economic Advisers (see Greenspan 2007, 52).

14. Greenspan told colleagues in 1975, "Starting in the 1930's, regrettably, a whole new approach to government and politics emerged, flowing from acceptance of the view that government should have a program to 'solve' every 'problem' identified by our society. . . . [W]e must end this game of making it appear that government can create benefits to some without imposing costs to others. . . . Somehow we must counter the idea that the 'federal government' is able to live outside the rules that apply to individuals and other institutions" (quoted in Reichley 1981, 383).

national and international economic policy and served as the focal point for economic policy decision making.[15]

Central to this was the Executive Committee, which met daily during the administration's first year. Both committees were chaired by Simon, with Seidman as the executive director. Seidman regarded himself as an "honest broker." "It was my purpose," Seidman explained, "to ensure that all views on every issue were fairly presented to the President" (1993, 26).

Meeting daily at 8.30 A.M. in the Roosevelt Room of the White House, across the hall from the Oval Office, the Executive Committee would deal with the major issues facing the country's economy. During the Ford presidency, the EPB held 520 meetings and dealt with 1,539 agenda items. Ford himself attended 93 meetings, approximately one a week, reflecting his personal involvement in the formulation of economic policy (Seidman 1993, 27).[16]

The first two months of the new administration saw Ford and Congress united in a battle against spiraling inflation. This would culminate at the end of September 1974 in a two-day Summit Conference on Inflation.[17] Called for by Congress, with presidential approval, the summit was attended by more than 800 delegates, including economists and politicians across the whole spectrum of economic and political opinion. The majority of those present urged the administration to tackle inflation immediately, though some warned of an impending danger of recession.[18]

Ford reflected many of these opinions in his first major economic address before a joint session of Congress on October 8. He proposed a prudent, conservative program designed to combat inflation and encourage growth. It included a 5% surcharge on individual and corporate income taxes; an investment tax credit; programs to conserve energy and reduce oil imports; an extension of unemployment compensation; a moderate jobs program; and a plan to control federal expenditures by holding outlays to less than $300 billion for fiscal year (FY) 1975. It also called for all Americans to "Whip Inflation Now" (WIN) (*Public*

15. Executive Order 11808, Section 3, GRFL. Ford would later describe the Economic Policy Board as "the most important institutional innovation of my Administration." Letter, President Ford to L. William Seidman, January 8, 1977, folder "Seidman, L. William," Box 2858, White House Central File Name File, GRFL.

16. As well as the EPB, Ford established the Labor-Management Committee, composed of eight labor leaders and eight business executives, designed to embrace a broad range of opinions (*Public Papers* 1975, 208).

17. Useful summaries of the preliminary Conference on Inflation can be found in White House press release, "White House Meeting of Economists of the Conference on Inflation," September 5, 1974, folder "Summit Conference on Inflation—September 1974—Economists, September 5, 1974 (1)," Box 52, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL; Arthur Okun, Summary of September 5 Economist's Conference on Inflation, folder "Summit Conference on Inflation—Sept. 1974—General," Box 52, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL; and Summary Paper, Labor Conference on Inflation, September 11, 1974, folder "Summit Conference on Inflation—September 1974—Labor, September 11, 1974 (1)," Box 52, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL.

18. To some extent, this reflected growing public opinion. At the end of the Summit Conference, Paul McCracken sent Ford the results of a recent poll carried out by the Survey Research Center at the University of Michigan. In response to the question, "Which do you think will cause more serious economic hardship during the next year?" 67% of people answered "inflation," and only 25% "unemployment." Memorandum, Paul McCracken to President Ford, September 28, 1974, folder "Business and Economics—National Economy 9/74," Box 4, Presidential Handwriting File, GRFL.

Papers 1975, 228-38). The proposals displayed the prudent economics of tight budgeting, the aim of the surcharge being to make the overall program fiscally neutral.

Reaction was mostly negative. The 5% surtax—a tax hike—was widely condemned, while Ford's call to "Whip Inflation Now" was ridiculed as an ineffective gimmick.[19] Only his proposals on expanding and extending unemployment insurance and his jobs program attracted any real support. Ford's problems worsened as statistics increasingly suggested that the economy was in decline. Figures released on October 29 showed the largest single fall in the index of leading indicators for any single month in 23 years (Porter 1980, 105).

For Ford, it had been a difficult first two months. A seemingly strong consensus on prioritizing inflation among economists, Congress, and the president disintegrated as the economic news worsened. It was particularly unfortunate for Ford, who was seeking to assert his intellectual credentials as a president who could successfully manage the economy.

Combined with Ford's controversial pardon of Nixon in September, the Republicans would experience a shattering defeat in the November midterm elections, giving Democrats an almost two-to-one majority in both Houses. Ford's marriage with Congress was quickly replaced by what Max Friedersdorf, Ford's assistant for legislative affairs, called "an unhappy separation."[20]

The proposals did, however, make clear the direction that the administration intended to take, which was to bring inflation under control. According to William Gorog, "we had to get rid of that dragon [inflation]. . . . The general feeling about unemployment was that there was not a great deal the government could do other than passing out money to the unemployed."[21]

This latter point highlighted an important shift that was occurring in administration policy. On an undated draft of Ford's speech to Congress, Seidman had written, "Price Stability In Full Employment Out."[22] Ford recommended that the "Employment Act of 1946 be amended to include as an objective of national economic policy reasonable price stability of the price level along with maximum employment and production."[23]

19. The press was extremely critical. The *Wall Street Journal* called Ford's proposals "neither surprising nor bold." The *New York Times* said, "The overall impact of Mr. Ford's speech was weak, flaccid and disappointing," adding that the proposals, "in no sense add up to a program for an emergency . . . There is almost certainly a misjudgement of the public mood" (see Ford 1979, 195-96).

20. Max L. Friedersdorf, interview with the author, October 25, 1994.

21. Gorog, interview with the author.

22. Draft, "Outline of President's Economic Program," no date, folder "Economic Address to Congress—(10/8/74)—Outline," Box 117, L. William Seidman Files, GRFL.

23. Draft no. 2 of an address by the President to a joint session of Congress, folder "President's Address to Congress—October 8, 1974 (WIN)," Box 49, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, Gerald R Ford Library; Memorandum, Walter D. Scott to Roy L. Ash, November 5, 1974, folder "Office of Management and Budget (6)," Box 13, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL. Arthur Burns agreed with the White House, writing, "The Board believes that legislation should be enacted to establish general price stability as a national goal of comparable importance to that of full employment. The Employment Act of 1946 was enacted at a time when the problem of unemployment was the major concern of economic policy." Letter, Arthur F. Burns to William V. Skidmore—Assistant Director of the Legislative Reference, Office of the Management and Budget, August 13, 1974, folder "8-1-74 thru 8-15-74," Box Q5, Arthur F. Burns Papers, GRFL.

This attempt to restrain inflation would lead the administration into further conflict with the Democrats in Congress who would increasingly seek to prioritize unemployment, drawing on the Keynesian orthodoxy that many of them saw present in the Employment Act. For Ford, full employment was now one of a number of goals for economic policy.[24]

Initially, the administration continued to pursue the October proposals, rejecting claims that a recession was occurring. This was partly attributable to a raging debate taking place within the EPB among Simon, Greenspan, and Seidman over the future direction of economic policy. Both Simon and Greenspan insisted that inflation must be prioritized and not compromised by any possible increases in federal spending to tackle recession.[25] Both believed that Ford should hold firm to his October 8 program. Seidman disagreed, and from mid-November, he increasingly expressed his concern over a potentially rapid deterioration in the economy and urged that contingency plans be drawn up.[26] His concerns were not just economic. As the economy worsened and began to slip into recession, both Democrats and Republicans in Congress began pushing for tax cuts to stimulate the economy.[27] Seidman's worry was that the Democrats would seize the initiative.

The statistics reinforced Seidman's position. The unemployment rate in November rose to 6.5%, the highest since October 1961, the Consumer Price Index had risen 12% over the previous year and, in the first week of December, the Dow Jones Industrial Average declined to its lowest level since October 1962.[28] Wrote *Business Week*, "With the U.S. economy clearly sliding into a major recession and with prices shooting up . . . the Ford administration faces the necessity of doing something that never has been done before: It must fight inflation and recession simultaneously" (1974, 84).

In the face of this growing opposition, Ford conceded at the beginning of December that the economy was in "difficult straits" and that a policy change was being considered.

24. Ford would later comment, "I've never felt that the Employment Act" was "very realistic" (Gerald R. Ford, interview with the author, October 15, 1993).

25. On December 4, Simon held a press briefing in which he argued, "Inflation has been a primary cause of the recession we are now experiencing." He went on to provide a long list of the causes of the current inflation, all of which, he said, had occurred before Ford had taken office. Paper, "Dealing with Inflation and Recession," William E. Simon, based on December 4, 1974 Press Briefing, attached to letter by Paul A. Miltich to unknown correspondent, December 9, 1974, folder "BE5 12/1/74-12/3/74," Box 17, White House Central Files, GRFL.

26. Porter (1980, 107-9) argues that a particularly heated EPB meeting took place on December 5 during which Seidman argued for the possibility of a major recession and higher unemployment rates to be taken more seriously. He urged committee members to consider the views of nongovernmental economists calling for a significant change in fiscal policy.

27. See, e.g., the Statement of Economic Policy, Democratic Conference on Party Organization and Policy, Kansas City, Missouri, December 6, 1974, folder "Business and Economics—National Economy 12/21-31/74," Box 4, Presidential Handwriting File, GRFL; and Memorandum, "Re: Meeting with Republican Senatorial Leadership," probably Seidman or Friedersdorf to President Ford, December 6, 1974, folder "Senate Republican Leadership," Box 154, L. William Seidman Files, GRFL.

28. Memorandum, William J. Fellner to President Ford, December 6, 1974, folder "December 1974," Box 1, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL; Memorandum, William J. Fellner to President Ford, December 6, 1974, folder "FG6-3, 12/1/74-12/31/74," Box 20, White House Central Files Subject File, GRFL; Memorandum, Alan Greenspan and William J. Fellner to President Ford, December 13, 1974, folder "December 1974," Box 1, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL; Memorandum, William J. Fellner to President Ford, December 20, 1974, folder "FG6-3 12/1/74-12/31/74," Box 20, White House Central Files Subject File, GRFL.

He warned, "If there are any among you who want me to take a 180 degree turn from inflation fighting to recessionary pump-priming, they will be disappointed" (*Public Papers* 1975, 733-38).

There began an intense period of activity within the administration involving almost daily EPB meetings and, at the suggestion of Seidman, the involvement of outside economists, including former Council of Economic Advisers chairmen Herbert Stein, Walter Heller, and Arthur Okun.[29] Then, on Christmas Eve, the EPB warned Ford, "The recession is likely to be the most severe since at least 1958, and probably the worst since the 1930s." As a result, the board argued, "temporary stimulus is now required. Our challenge is to do this in a way that will not trigger renewed inflationary pressures."[30]

By January 1975, Ford accepted what his press secretary, Ron Nessen, described as a "179-degree" turn, dramatically moving from the strict, fiscal conservative October proposals to fight inflation with a tax increase to proposing a stimulatory tax cut to fight recession.[31] On January 15, in his State of the Union message, Ford proposed a $12 billion, one-year 10% tax cut for individuals and a $4 billion tax credit to encourage business. To neutralize the increased federal deficit that would result from the tax cut, Ford requested a moratorium on all new federal programs, except for energy, and a $17 billion cut in existing programs.[32] He warned, "I will not hesitate to veto any new spending programs adopted by the Congress" (*Public Papers* 1977, 1:36-46).[33]

In accepting a tax cut, Ford embraced the more politically pragmatic strategy of Seidman—to tackle recession without aggravating inflation. It was a policy that neither Simon nor Greenspan had encouraged.[34] It reflected Ford's willingness to look beyond the strict dogma of economic theory to consider the political implications of policy. Facing overwhelming Democratic opposition in Congress, his choice seemed prudent.

More importantly, the no-new-spending rule pursued by Ford placed on the agenda the importance of the budget as the battleground for economic policy. His commitment to restraint pitted him against a Democratic Congress that wanted more, not less, spending, to pull the country out of the recession and create jobs.

Ford's journey from fighting inflation to tackling the recession highlighted a fundamental difficulty that the administration faced until the end. Catapulted into the presidency at a time of traumatic economic and political upheaval, the Ford White House

29. Note, "List of Those Attending Economic Policy Board Executive Committee Meeting With Economists, Dec. 19, 1974," folder "EPB: Meetings with Outside Economists," Box 57, L. William Seidman Files, GRFL; and Porter (1980, 111).

30. Memorandum, L. William Seidman to President Ford, December 24, 1974, folder "Business and Economics—National Economy 12/21-31/74," Box 4, Presidential Handwriting File, GRFL.

31. *New York Times*, January 9, 1975.

32. The State of the Union was deliberately moved forward from the scheduled date of January 20 to prevent Congress from stealing the initiative. Memorandum, no author—but probably from Seidman to Ford, January 6, 1974, folder "State of the Union 1/1-10/75," Box 164, L. William Seidman Files, GRFL; and Minutes of the Economic Policy Board Executive Committee Meeting, January 6th 1975, folder "E.P.B. Meeting Minutes, Jan. 1-8, 1975," Box 20, L. William Seidman Files, GRFL.

33. Ford began by announcing that "the state of the Union is not good," leading the *New York Times* to describe his speech as "the gloomiest delivered by a president since the Depression of the nineteen thirties" (*New York Times*, January 16, 1975, pp. 1, 24).

34. See Moran (1996) for a more detailed consideration of Ford's economic advisers and the administration's economic policy during its first nine months in office.

found itself constantly having to react to events that often were beyond its control. It struggled to be proactive and to stamp its own identity on policy.

Pragmatically, Ford accepted that the emphasis on policy "must now shift from inflation to jobs" (*Public Papers* 1977, 1:37). But the no-new-spending rule to balance the effects of tax reduction on the budget deficit reinforced the view that he had not abandoned his principles. His program attempted to balance conservative economic policy between the competing priorities of reducing unemployment and harnessing runaway inflation. The temporary tax reduction was designed to give the economy a shot in the arm in the second quarter of 1975 in order to reduce unemployment without continuing long enough to imperil a move toward a balanced budget. Expenditure restraint and deficit control would prevent the economy from overheating as it moved toward recovery.

Ford's first budget to Congress aimed to stimulate the economy with deficits of $34.7 billion for FY 1975 and $51.9 billion for FY 1976. This was based on congressional approval of Ford's January 15 program of temporary and permanent tax cuts, new taxes on energy consumption, and a tight lid on spending with budget reductions of $6.1 billion in FY 1975 and $17.5 billion in FY 1976.[35] Only energy and defense were excluded from the no-new-spending rule.

Not surprisingly, it was immediately condemned by Democrats. As if this were not enough, Ford also attracted criticism from within his own party. Whereas Democrats opposed his proposed spending restraints, Congressional Republicans criticized Ford for accepting such a dramatic increase in the federal deficit.

As unemployment continued to rise during the early months of 1975, Congress responded in March by passing a $22.8 billion tax cut—the largest tax reduction in history and $6 billion more than requested by Ford. It was much more populist than Ford's, favoring such things as social security, pensions, and welfare, and a $100-$200 tax rebate for most taxpayers.

The House Budget Committee also approved a federal budget for FY 1976 that would result in a deficit of $73.7 billion. It recommended spending $366.7 billion in FY 1976, $17.3 billion more than Ford had requested, with revenue of $293 billion, $4 billion less than the president had proposed in his February 3 budget message. The committee's projected deficit was $21.8 billion more than Ford had suggested (*Congressional Quarterly* 1975d). The House budget reflected the dominance of the Democrats, and it was immediately condemned by the Office of Management and Budget, which estimated that if Ford lost all of his battles with Congress over the budget, the deficit could rise to as much as $100 billion (*Congressional Quarterly* 1975a).

Ford's economic advisers were divided on the tax bill. Greenspan, Seidman, Vice President Nelson Rockefeller, Friedersdorf, Nessen, Office of Management and Budget director James Lynn, and Robert Hartmann, counselor to the president, urged Ford to sign the bill, arguing that a veto would lose him credibility and that Congress would

35. The projected deficit was second only in current dollar terms to the $54.9 billion deficit of FY 1943, but as a percentage of total spending, it was only slightly larger than the deficit of 1968 and the recession year of 1959. A surplus of $25 billion was predicted for 1980 (*United States Budget in Brief* 1975, 3-18).

respond by passing a larger tax cut in 1976—an election year. Seidman summarized the consensus view, arguing that "a tax cut is economic action of the right type—stimulus through taxes rather than expenditures." But he urged Ford to hold back on using the veto, seeing a more important use. "Your veto power should be used in the real battle—holding down Federal spending."[36]

The only member of the EPB Executive Committee to urge a veto was William Simon, who argued that the tax bill would "provide a guarantee of large future deficits." He also warned Ford that the bill could be damaging politically, fearing that it would give ammunition to the Republican Right, many members of which prioritized the importance of deficit reduction.[37] This danger was not lost on Ford, who later commented that it was becoming clear that "if I did not do something for conservatives soon, I would risk a party polarization that would damage my attempts to win the GOP nomination in 1976" (1979, 258-59).

The president delayed signing the bill until the last possible moment, reflecting the dilemma he faced. Documents show that on March 28, a statement was drafted for Ford to the House of Representatives that began, "I am returning H.R. 2166 without my approval."[38] Ford knew, however, that he had no choice but to sign the bill. If he vetoed it, having criticized Congress for not acting quickly enough to cut taxes, his credibility would have been severely damaged. Congress might also pass a more irresponsible bill. He would invite fewer problems if he signed the bill (Ford 1979, 258-59).[39] As a result, he reluctantly did so on March 29, describing the $22.8 billion tax cut as a "reasonable compromise." Ford made it clear that there was a condition attached, announcing, "I will resist every attempt by the Congress to add another dollar to the deficit by new spending programs. I will make no exceptions" (*Public Papers* 1977, 1:409). Given Ford's relationship with Congress and the majorities the Democrats held, to many, this seemed an empty threat.

The three months from the State of the Union message to the signing of the tax cut on March 28 established a pattern for economic policy and executive–congressional relations for the rest of the Ford presidency—a policy statement followed by tough talk and then compromise. From the beginning, Ford had been handicapped by the embarrassment of having to ask for a major tax cut in January, a mere three months after having pleaded for a tax surcharge. Inevitably, this change in policy weakened his position, and it was against this background that events were played out and Congress sought to reassert its strength.

But this does not tell the complete story. With the about-face on the surcharge, Ford boldly struck out in a new direction, regardless of the political damage it might

36. Memorandum, L. William Seidman to Gerald Ford, March 28, 1975, folder "Finance—Taxation (3)," Box 20, Presidential Handwriting File, GRFL.

37. Memorandum, William E. Simon to the President, March 28, 1975, folder "Finance—Taxation (3)," Box 20, Presidential Handwriting File, GRFL.

38. Draft Memorandum to the House of Representatives, 28 March 1975, folder "Tax Cut Bill (3)," Box 18, Robert T. Hartmann Files, GRFL.

39. Two very useful accounts of the March 1975 tax cut can be found in Kellerman (1984) and Moran (1996).

cause him. In public relations terms, this was difficult, but it helped set the agenda, and the president was successful in getting Congress to produce a tax cut bill within three months of announcing his intentions.

By the middle of April, figures suggested that the recession was beginning to end and that economic recovery was under way. Inflation, in particular, had declined to an 8% annual rate in the first quarter, sharply below the 14.4% rate of the final quarter of 1974.[40] By June, Greenspan felt confident enough to announce, "The recession for all practical purposes is over." He warned, however, that unemployment would not show substantial improvement until the autumn. In fact, in May, unemployment reached a postwar high of 9.2%.[41]

This failure to tackle unemployment continued to be highlighted by Democrats. As the autumn approached and the March tax cut was due to expire, the Democratic majority of the Joint Economic Council, on October 1, advocated an additional tax reduction of $8 to $10 billion in 1976, as well as an extension of the 1975 law. If present administration policies were continued, the council warned, there was little prospect that the current recovery would be sustained in 1976 (Sobel 1976, 152).

What the Democrats, public, media, and, indeed, the majority of members of the EPB were unaware of was that throughout the summer, a small team of Ford's advisors had worked in secret on a dramatic economic program that would combine a major tax reduction with significant expenditure reductions, rather than a simple one-year extension of the past spring's tax reductions. The program had been worked on principally by Ford, Rumsfeld, Lynn, Greenspan, Rumsfeld's deputy, Richard Cheney, and Paul O'Neill, the deputy director of the Office of Management and Budget (Reichley 1981, 392). The initial proposal appeared to come from Rumsfeld and Greenspan alone (Sloan 1993, 287).[42] Dramatically, Simon and other members of the EPB were excluded.

The first hint of Ford's proposal came on October 1, when the president told reporters, "We are trying to coordinate a potential tax reduction program with a rigid restriction on expenditures." He believed this would allow taxpayers to spend more of their own money and would improve the fiscal situation for the federal government. He hoped to "be in a position to submit a specific recommendation to the Congress" within the next week (*Public Papers* 1977, 2:1553-54).[43]

The Treasury now received orders to develop a $28 billion program, and tax officials then worked throughout the weekend to put together a package that met the White House requirements. Though preparations for the FY 1977 budget and the 1975 tax cut

40. Memorandum, Alan Greenspan to President Ford, April 18, 1975, folder "April 1975," Box 1, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL; and Memorandum, Alan Greenspan to President Ford, April 10, 1975, folder "April 1975," Box 1, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL.

41. Transcript of "Face the Nation" Interview, June 22, 1975, folder "Speeches and Statements June 1975," Box 60, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL.

42. The *National Journal Reports* later noted that the most frequently cited people for linking the tax cut and spending reductions were Rumsfeld and his deputy—and soon to be replacement—Richard Cheney (see, e.g., Balz 1975). But Jerald terHorst argued that the dollar-for-dollar idea was originally that of the Secretary of Labor, John Dunlop (*Chicago Tribune*, October 10, 1975).

43. Ford was replying to the question concerning John Dunlop's recent announcement that he favored extending the tax cut.

had been under way for some time, it was only now that they were finally linked.[44] Lynn recounts, "We set out in a very methodical way to look at everything the federal government does, and to make cuts wherever we legitimately could . . . We could have gone deeper, but I think the president was right to feel that there were only so many interest groups that we could take on at any one time. The cuts we proposed were both reasonable and politically realistic" (Reichley 1981, 392-93).[45]

On October 3, Greenspan and Cheney finally advised Ford that it was "time to discuss with the Executive Committee of the Economic Policy Board the fact that you are considering a major tax cut and significant expenditure reductions, rather than a simple one year extension of last Spring's tax reductions." They instructed Ford to tell the committee that he wanted work to "begin immediately on a bigger tax cut" and that Jim Lynn already had been given instructions "to come up with major expenditure reductions."[46]

The memorandum called for the Executive Committee to get back to the president the following morning with a recommended course of action that emphasized "a new tax cut to take effect sometime in 1976 and an overall spending ceiling which can be recommended at the same time that you announce your new tax cut proposal." It also made quite clear that everyone had "to operate on a need-to-know basis . . . there should be absolutely no leaks either to others in the Administration, to Members of Congress or to the press." In a direct challenge to the Democrats, the memorandum suggested that Ford announce his decisions as early as Monday, October 6, the day before the House Ways and Means Committee was due to announce its own tax reform proposals.[47]

The EPB met the deadline. On October 6, Ford addressed the nation on television from the Oval Office to announce his radical proposals. He began by blaming Congress and the Democrats for legislation that increased federal spending, producing a growth in bureaucracy, budget deficits, and inflation. He argued, "We do not have to look far for our underlying problems. Much of our inflation should bear a label: 'Made in Washington, D.C.' " (*Public Papers* 1977, 2:1604-8).

His solution was radical and innovative, proposing permanent tax reductions totaling $28 billion, which was the biggest single tax cut in American history. It was also $16 billion more than would have resulted from a Democratic plan to extend the 1975 tax cut beyond its scheduled expiration at the end of December 1975 into 1976. The administration argued that reduced tax rates would put more money in the hands of consumers, businesses, and investors, who could allocate funds as they wished within an increasing free market, further stimulating capital markets. Three-quarters of the permanent reductions would go to individuals. The remaining quarter was directed at

44. "You had these parallel tracks going on for a long time," one White House official said, "but it wasn't until the last week that they were joined" (Balz 1975).

45. Gorog said at the end of October, "the whole question of establishing a cap on spending was going full blast when I got here five months ago. The President had directed Jim Lynn to look for a whole new process for the budget." The administration felt that the new budget procedures in Congress would not be enough and that a cap on spending was required (Balz 1975).

46. Memorandum, Richard B. Cheney and Alan Greenspan to President Ford, October 3, 1975, folder "Finance—Taxation (6)," Box 20, Presidential Handwriting File, GRFL.

47. Ibid.

business to provide greater incentives for investment and job creation.[48] However, this would have to be combined with a congressional commitment to reduce federal expenditures by a similar amount in FY 1977—almost a dollar-for-dollar cut in taxes and spending.

Though Ford said that cuts would be made across the board with no stone unturned, he did not give any specific details of where the spending cuts would be made. He hoped, however, that his program would be "a first step . . . toward balancing the Federal budget within three years."[49] Slowing the momentum of federal spending was the centerpiece of the program, not cutting taxes for stimulative reasons.

The combination of tax reductions and budget cuts was innovative, but it was also Ford's third major proposal for tackling stagflation within a year. Ford's plan differed from his previous attempts in that the tax cut was enormous and permanent, and, crucially, it was tied in with spending restrictions and a commitment to balance the budget within three years.

Once again, political considerations had to be taken into account. The House Ways and Means Committee's intention to take up the issue of tax reform as part of its reform bill had effectively forced the administration's hand. Furthermore, Ford's concerns about a possible challenge from the Republican Right for the nomination in 1976 were beginning to take shape, led by Ronald Reagan.

The Democrats condemned Ford's plan as "totally preposterous" (Ford 1979, 314). Many regarded his insistence on a spending ceiling as a weakness in the proposals, branding the formal link between tax cuts and a tight rein on spending as "a political gimmick," and arguing that as Ford would not present his own spending proposal until January, Congress could not responsibly bind itself to a given level of expenditure months before the president had sent his detailed budget proposals to Capitol Hill.[50]

On December 17, the confrontation between the administration and Congress finally came to a head. Congress lowered taxes by only $8.4 billion, extending for just six months the $28 billion Ford had asked for. This did not include the ceiling on expenditures that Ford had demanded. Congress argued that federal restraints were unacceptable, that the extension of the 1975 tax cut would be enough fiscal stimulus, and that the whole package would undermine Congress's own new budgetary procedures, in operation for the first year in 1975. Ford vetoed the bill on December 17, and his veto was sustained by the House the following day. Both sides worked for a compromise, which was passed

48. Press Release—Fact Sheet: The President's Proposal for Tax Cuts and Federal Spending Restraint, October 6, 1975, Drawer 26, Folder "26:24, Tax Cuts 1975: (Oct-Dec)," William E. Simon Papers, David Bishop Skillman Library, Lafayette College.

49. Given the enormousness of the proposals, it is remarkable that the EPB was not fully informed of Ford's intentions in detail until the last minute. Jack Casserly, one of Ford's speechwriters, argued that Ford's announcement "stunned" Simon and Arthur Burns, as it "far exceeded any of their suggestions" (1977, 191). Indeed, Simon's apparent exclusion from the policy-making process until the closing stages was extraordinary, confirming suspicions for many in the press that he was too conservative and that fierce disagreements existed between him and some members of the administration. Nessen later observed, "Rumsfeld was working against him. Some Ford aides believed Rumsfeld wanted Simon's job. Ford seemed irritated with him and Rumsfeld clearly was" (1978, 152).

50. *Los Angeles Times*, October 8, 1975.

by Congress and signed by the president on December 23. Ford's proposals on spending restraint were watered down to a loose agreement that any tax cut below 1974 levels would be matched by a spending cut.[51] Ford conceded, "The important thing was that the lawmakers had committed themselves to trim spending simultaneously with any further extensions of the tax cut measure after next June 30" (Ford 1979, 339).

The compromise allowed both sides to claim a measure of victory in their running feud over economic policy, but it was largely a convenient political compromise designed to avoid a tax increase at the beginning of 1976—an election year. Congress reluctantly had accepted that further extension of tax reductions beyond the first half of 1976 would require restraint in the growth of federal spending. In return, Ford was being asked to abandon his earlier demand for a firm federal spending ceiling and to accept a tax cut that was neither permanent nor anywhere near the size he had originally proposed. Once again, Ford had been forced to back down under pressure from Congress and had failed to deliver his own complete economic program. With an election year looming, it was probably the best he could get.

Though Ford had failed to take the initiative fully from Congress, he had again sought to shift the emphasis of economic policy. He had placed the budget deficit and the goal of a budget surplus at the centre of his economic policy, telling the American people that the country could have more government spending or it could have lower taxes—it could not have both. It was, at its most basic, a battle between budgetary control and the perceived excesses of Keynesian economics. It was a trade-off that confirmed in the administration's opinion that the New Economics was dead.

In identifying federal government as a key contributor to the economic problems that the country faced, Ford crystallized a Republican theme that later would be harnessed to great effect by President Ronald Reagan.[52] Given that the numbers were stacked against him in Congress, it is not surprising that his program did not succeed. But Ford had forced the Democrats to compromise, and, in doing so, he had ensured tighter limits on budgetary spending than they would have liked.

America's bicentennial year, 1976, would see similar battles continue, exacerbated by the scramble for election votes. Ford's budget for FY 1977, however, continued his demand for restraint. Unlike others before him, he made a deliberate choice not to stimulate the economy for the sake of a healthy short-run boom come election time. Ford later observed,

> Alan Greenspan warned me in January [1976] that if I had a restrictive, responsible budget that I submitted for Fiscal '77 I would probably pay some political penalty. But on the other hand he warned me that if you submit to the Congress for Fiscal '77 an irresponsible, expansive budget you will repeat the problems you inherited, and I made a deliberate

51. An amendment was proposed stating that Congress "shares the President's determination" to hold down the national debt by reducing spending and affirming Congress's commitment to the new congressional budget process. The Senate agreed to the House version by a voice vote, and Ford signed the bill on December 23 (*Congressional Quarterly* 1975c).

52. For example, Reagan would famously say in his 1981 inaugural speech, "government is not the solution to our problems; government is the problem" (Reagan 1990, 226-27).

> decision . . . to have a moderate, restrictive, conservative budget and gamble that we would win the election, and if I did then come the next four years we wouldn't have a disastrous economic catastrophe.[53]

It was an extraordinary risk to take, to some extent reflecting Eisenhower's reluctance to stimulate the economy in 1959. Ford hoped that, unlike Eisenhower's unfortunate vice president, Nixon, in 1960, he would secure reelection, and he would do this by remaining true to his conservative principles.

Democrats had no intention of holding back, however, particularly where unemployment was concerned. This was, perhaps, best exemplified by the Humphrey-Hawkins Full Employment Bill, which was a clear statement of Democratic intentions to shift Ford's emphasis from inflation and balancing the budget to tackling unemployment. The bill was introduced on March 12, sponsored by Senator Hubert H. Humphrey, majority chairman of the Joint Economic Council, and Representative Augustus F. Hawkins (D-CA), chairman of the Education and Labor Subcommittee on Equal Opportunities.[54]

Essentially a recommitment to the goals of the Employment Act of 1946, Humphrey-Hawkins mandated that the federal government secure an adult unemployment rate of 3% within four years of being passed—that is, 1980—to be achieved by macroeconomic policy if possible, or else by the use of the federal government as the "employer of last resort."[55]

It was a bill that found support among many liberal Democrats as well as key Democratic supporters such as organized labor, African Americans, and women's groups. Though the bill would incur potentially high costs, backers of the bill argued that full employment was the best means of achieving a balanced budget in the long run because it would increase tax revenues and reduce benefit payments.[56]

The bill was a complete anathema to the administration, which saw government intervention in the economy on the scale that Humphrey-Hawkins suggested as a major contributor to budget deficits and an unhealthy economy.[57] Ford labeled the bill "a vast election year boondoggle" (*Public Papers* 1979, 2:1211).

53. Ford, interview with the author.

54. This was the third attempt by Democrats to get the bill passed. It was first introduced by Hawkins to the House on June 20, 1974, with Humphrey following suit in the Senate in October 1974. Lost in the traumatic events of Watergate and growing stagflation, the bill was reintroduced to the 94th Congress in January 1975, with Hawkins's House subcommittee and Humphrey's Joint Economic Council holding a series of meetings throughout the country during 1975 and early 1976. Then, on March 12, 1976, Hawkins and Humphrey reintroduced their bills, backing this up with a two-day full employment conference in Washington, March 18-19, to launch the legislation.

55. Full employment conventionally had been defined as being 4%. A useful summary of the bill can be found in "Statement by Hubert H. Humphrey: Press Conference—Full Employment and Balanced Growth Act of 1976, March 12, 1976," folder "Testimony: Joint Economic Committee, March 19, 1976: Background Material—Full Employment," Box E29, Arthur Burns Papers, GRFL.

56. Some Democrats, such as Representative Bella S. Abzug (D-NY), were unhappy that the bill did not guarantee absolute full employment, rather than 3% (see, e.g., *Congressional Quarterly* 1976b).

57. Hawkins's case was not helped when he admitted upon submitting the bill that it was difficult to quantify the cost of the bill. The best guess he could give was between $20 billion and $40 billion annually (*Congressional Quarterly* 1976b).

Conservatives were not alone in their skepticism of the bill. More damaging criticism came from the Keynesian economist Charles Schultze, director of the Bureau of the Budget in the Johnson administration and a member of the Brookings Institution, an influential liberal think tank. Humphrey-Hawkins, Schultze warned, threatened to make inflation worse because workers would leave the private sector for public service work, forcing wages to rise.[58]

The bill quickly became a political football, Democrats on the whole supporting it while the Republicans attacked it. It was adopted by the major Democratic candidates in the primaries, if reluctantly by some, and then by the Democratic Party at its convention. Therefore, the bill was important not for its detail, but for its importance as a symbol of what many believed would be the key election issue—the national economy and how to improve it. What was clear was that Ford would veto the bill. Not only that, the Democrats did not have enough support to muster an override, particularly as the more conservative Democrats, many of whom were freshmen, were unhappy with the levels of spending it suggested.

The administration responded to demands for job creation by developing alternatives to Humphrey-Hawkins, such as that spearheaded by Republican congressmen Marvin L. Esch (R-MI) and Jack Kemp (R-NY), which offered the opportunity of supporting legislation that was more in keeping with the administration's philosophy.[59]

The president's policy, however, would be undermined by the economic recovery stalling in late summer. After a first-quarter growth rate of 9.2%, the economy cooled to a growth rate of less than 2% (Greenspan 2007, 75). Initially unknown to the administration, the slowdown had been exacerbated by unanticipated shortfalls in budget outlays.[60] Greenspan argued that this was "not a cause for concern" at the time because economies were so complicated that they rarely accelerated or decelerated smoothly, and "all other major indicators—inflation, unemployment, and so on—looked fine" (Greenspan 2007, 75). However, it would prove disastrous as Ford entered the home stretch in his close election battle with Democratic opponent Jimmy Carter. In November, unemployment would reach 8%. Ford would later observe, "The pause in the economy could not have come at a more inauspicious time" (Reichley 1981, 403).

Jimmy Carter was one of a "new breed" of Democrats committed to limits on spending and growth. In this sense, he had much in common with many of the Democratic freshmen elected to Congress in 1974 who were more fiscally conservative than

58. Press release on statement of Charles L. Schultze before the Subcommittee on Unemployment, Poverty, and Migratory Labor of the Senate Committee on Public Welfare, May 14, 1976 (cited in Reichley 1981, 398; see also *Congressional Quarterly* 1976b).

59. Memorandum, L. William Seidman to President Ford, June 2, 1976, Drawer 20, Folder "20:29, Economic Policy Board: 1976 (June)," William E. Simon Papers, David Bishop Skillman Library, Lafayette College.

60. Useful resources on the shortfall include Memorandum, James T. Lynn to President Ford, October 14, 1976, folder "Office of Management and Budget (1)," Box 12, Council of Economic Advisers: Records (1969) 1974-77: Alan Greenspan Files, GRFL; Paper, Sidney L. Jones, "Economic Policies and Prospects," January 21, 1977, folder "Economic Policies and Prospects," Box 5, Sidney L. Jones Papers, GRFL; Reichley (1981, 402-3); and Hartmann (1980, 398-99).

traditional Democrats.[61] In Georgia, Carter had pioneered the development of zero-based budgeting in an attempt to bring greater budgetary control to the state's finances.

Though both candidates would highlight honesty and integrity as being central to the race, the economy was crucial to the outcome of the election. A significant election study of voters' attitudes throughout the campaign highlighted unemployment and then inflation as the two most frequently cited concerns, with the economy generally in third place. The divisive issues of race, law and order, and Vietnam that had dominated the elections of 1968 and 1972 were now second place to voter concerns about the economy.[62]

Carter argued that the huge budget deficits the federal government faced were the result of Ford and Nixon, not Congress. High unemployment was caused by gross mismanagement based on an erroneous emphasis on tight constraint on the economy that had decreased revenues and created the Republican budget deficits (*Congressional Quarterly* 1976a).

Carter also questioned Ford's assumption that government spending produced inflation, arguing that "[a] lot of the inflationary pressures in recent years have been transient—caused not so much by excessive demand as by dollar devaluations and the big jump in oil and food prices." As a result, he felt that government could pursue an expansionary fiscal and monetary policy to reduce unemployment without reigniting inflation, because the economy was performing so far under capacity. But he would not go as far as some congressional Democrats advocated, conceding that some spending programs might have to be postponed in order to avoid an inflationary impact.[63]

In effect, Ford and Carter approached the economic problems that the country faced from opposite ends. The president started with reduced federal spending and lower inflation to balance the budget and lower unemployment, while Carter sought to reduce unemployment in order to lower inflation and balance the budget.

Pat Cadell, Carter's pollster, observed that "Carter held a long lead over Ford among those whose concern was unemployment. He had something of a lead on the 'economy in general' but virtually tied with Ford among those whose primary economic worry was inflation."[64] Indeed, by the autumn, some public opinion polls showed that many believed inflation, not unemployment, was the more fundamental danger. This led political commentator David Broder to observe wryly, "The Republicans won the argument, but lost the election" (Reichley 1981, 406).

Though Ford's message on inflation made some ground, Carter was able to appeal to Democratic Party voters within the framework of New Deal coalition politics. It was estimated that Carter won seven out of eight votes from individuals who held

61. Similar-minded Democrats included Governors Michael Dukakis of Massachusetts and Edmund G. Brown Jr., of California (see, e.g., *Congressional Quarterly* 1975b; Edsall 1984; Schneider 1989).

62. "The Five Problems Most Frequently Cited as Important in 1976," a CPS 1976 Election Study, as featured in Asher (1988, 203).

63. *U.S. News and World Report*, May 24, 1976. To counter criticisms from liberals in the party, Carter chose Senator Walter Mondale as his running mate, who was associated with government activism and the type of big government programs that Carter had opposed in the early stages of his primary campaign.

64. Initial Working Paper on Political Strategy, Patrick H. Cadell, December 10, 1976, folder "12/10/76-12/21/76 (CF, O/A 5901)," Box 4, Staff Offices Press Powell, Jimmy Carter Library.

unemployment to be the major issue (Pomper et al. 1976, 75). Voters who preferred Ford were more likely to fear inflation than unemployment (Pomper et al. 1976, 152).

Though the economy improved in the final days before the election, by then, it was too late. The economic blip that had hit the economy in the late summer of 1976 left a lingering doubt about Ford's abilities. Ford's belief that "in the final analysis voters vote with their pocket books" appeared true.[65] Carter defeated Ford by 49.9% to 47.9%. Carter had 297 Electoral College votes to Ford's 241. If only 8,000 votes in Hawaii or 11,000 in Ohio had moved from Carter to the president, Ford would have won.[66]

The Legacy of Ford's Economic Policy

Ford will never be seen as a great president. It is difficult to judge a man's record on just 895 days in office, and he will always be tarnished by the pardon of Richard Nixon. But it is clear that his economic policy did ultimately pay economic dividends, as he passed on to Carter a healthier economy than the one he had inherited from Nixon.

At the end of the Ford administration, productivity was up, inflation was falling, and gains had been made to reduce the high unemployment rates of 1975. Though federal budget deficits reached successive postwar highs of $53.2 billion for FY 1975 and $73.7 billion for FY 1976, in many ways, this reflected a broad trend that was occurring in the economy and would continue once Ford had left office (Stein 1994, 455, 459).

Ford's budgets compare favorably on another level. The 1975 federal deficit represented 4.4% of gross domestic product, dropping to 3.0% in 1976 as production increased. In comparison, during the Reagan presidency, this figure would climb to height of 5.3% in 1983, falling to 4.5% in 1985 before rising again to 4.7% in 1986. Total unemployment at its height under Ford would reach 8.5% in 1975 before falling to 7.7% in 1976. During the Reagan administration, this would climb to 9.7% in 1982 (Stein 1994). Happily for Ford, more than 4 million jobs were created from the spring of 1975 to the end of his administration, resulting in more than 88 million people working in productive jobs, more than at any other time in America's history (*Public Papers* 1979, 3:2921). Simultaneously, the Consumer Price Index, which rose to 9.1% in 1975, declined to 5.8% in 1976. It would reach 12.6% in the last year of the Carter presidency (Calleo 1982, 201). Ford's strategy of gradualism had paid dividends, but not quickly enough for him to enjoy the benefits.

The importance, however, of the Ford presidency reached beyond the economic statistics, and it is clear that significant changes were taking place. According to Herbert Stein,

> It was a period of transition . . . but it was a period of transition away from that overblown and unjustified optimism of the Heller-Okun years when we thought we could do every-

65. Ford, interview with the author.
66. *New York Times*, November 16, 1976.

thing and knew how to manage everything and we lived through a period in which we discovered that we didn't know how to do everything and so it was a kind of break down of the rules.[67]

During the Ford years, the Keynesian economic consensus that had begun to weaken at the end of the Johnson presidency slipped further into decline, and three decades of prioritizing employment was questioned as inflation increased and Democrats and Republicans struggled to combat the unprecedented development of stagflation. For the Ford administration, Seidman observed, "Using fiscal policy to stimulate the economy through spending was not on the agenda . . . Keynes really said the Government has to do something to stimulate the economy when it's in a recession but he chose spending whereas we chose tax cuts."[68]

Ford would turn his back on Keynes and the liberal variants of his theories, arguing that they had restricted the free market and prevented the economy from making equilibrium adjustments. He offered a gradual market-oriented solution, based around the belief that reducing government interference and spending within a stable macroeconomic context would lead to an automatic shift in resources from present consumption to future investment, producing long-term stability and non-inflationary growth. Unfortunately for Ford, after the long boom of growth and prosperity, the electorate perceived this as inaction.

Though members of the administration would continually accuse the Democrats of offering short-term solutions that ignored the long-term problems that the economy faced, they were frustrated by an apparent inability to get their message across to the American public. The president never succeeded in establishing a link between tax reduction and creating more jobs.[69] In contrast, the demands from Democrats in Congress appeared more dynamic.

For Ford, it was a matter of principle, and one that would cost him the presidency. As the election approached, he could have abandoned some of his restrictive policies, but he remained committed to anti-inflationary measures. Had he adopted Democratic stimulative proposals, rather than anti-inflationary dogma, he might have won.

Though inflation remained a core value of the administration, equally important was the commitment to balance the budget. Unfortunately for Ford, he faced a Congress committed to spending rather than restraint. Here, his only effective weapon was the veto, and this he used skillfully. Though Roosevelt, Truman, and Eisenhower vetoed substantially more pieces of legislation, the majority had been against relatively minor bills. Only five of Ford's 66 vetoes fell into that category. Thirty-nine of his vetoes directly affected public spending, and only six were overridden.[70] It was remarkable given the large majority against the White House in Congress, and suggests that the record

67. Herbert Stein, interview with the author, November 15, 1994.

68. Seidman, interview with the author.

69. Ford later said, "I am sure I didn't, as the principal spokesman, articulate the message as well as I should have done but the facts are that the program should have spoken for itself" (Ford, interview with the author).

70. Max Friedersdorf believes "the greatest achievement [of the Ford Administration] . . . was the number of vetoes that we sustained" (Friedersdorf, interview with the author).

deficits the administration incurred ($45 billion in FY 1975 and $66 billion in FY 1976) were significantly smaller than they could have been. Drawing on 25 years of experience in Congress and a congressional liaison team that he had wisely rebuilt after the Nixon debacle, Ford was able to hold the line against Democrat-inspired legislation that would have enlarged the budget with additional financial burdens.

Ford's last State of the Union message on January 12, 1977, offered a valediction to the political significance of his brief administration in shifting the paradigm of politics from the established Keynesian orthodoxy to a new conservatism. Ford also repeated a theme that had gathered speed toward the end of his administration—the reduction and rationalization of government regulation, which he saw as restraining the free market, and which Alan Greenspan later described as the Ford administration's "great unsung achievement" (Greenspan 2007, 71). In 1975, the administration had formed a regulatory task force to review the structure and practices of the regulatory agencies, identifying outdated or unnecessary regulations and bodies. Some success was achieved, most notably with the beginnings of deregulation of the railway industry, though legislation concerning the aviation and trucking industry was less successful. As Vice President Rockefeller wryly observed, part of the problem was that deregulation had "about as much political sex appeal as a sick alligator" (Reichley 1981, 400). Deregulation, however, stood high on the list of priorities for the second term, and would be pursued by Presidents Carter and Reagan (*Economic Report of the President* 1977, 8-9).

Indeed, where some commentators see a link with Eisenhower, others see Ford as a predecessor to Reagan. William Simon (1988) argued that "it was Gerald Ford who championed the ideas which gave birth to the revolution of conservative policies under the Reagan administration," with Ford hurling "a personal challenge right into the heart of the lion's den of liberalism—not once, not twice, but week-after-week." Both presidents demanded tax cuts and saw reducing federal spending as the key to a healthy economy. Spulber goes further, suggesting that the administration's emphasis on capital formation toward the end of the Ford presidency was a direct link to the supply-side economics of the Reagan years (Spulber 1989, 100). Ford recognized that the economy could not be fixed by short-term fiscal stimulus but required supply-side measures to strengthen its long-term foundations.

There was, however, one fundamental difference between Ford and Reagan that undermines the arguments of Simon and Spulber, and that is that Ford remained committed to balancing the budget throughout his presidency. The budget deficit under Reagan spiraled to such an extent that the Ford budgets seem almost miniscule in comparison. As James Lynn later observed, "I don't believe that Ford would have done the kind of tax cutting that Reagan did without insisting on the discipline of getting the spending side under control."[71] Indeed, the Ford administration was never truly convinced of the merits of supply-side theory. As Seidman later wryly commented, "We hadn't come to that powerful magic that allows you to increase expenditure, cut taxes and balance the budget all at one time. Ford wouldn't smoke that kind of dope."[72]

71. Lynn, interview with the author.
72. Seidman, interview with the author.

Ford's significance was in adapting traditional Republican economics to deal with new economic circumstances, prioritizing inflation as the number one economic problem in contrast to the shadow-of-the-depression concern with unemployment that had dominated the postwar era, including the Republican presidencies of Eisenhower and Nixon.[73]

Ford's solution was a gradual, conservative approach, based on practical experience after 25 years in Congress, rather than an unquestioning commitment to a narrowly defined theoretical model.[74] His successes at first would appear to be limited. The Democratic stranglehold over Congress would result in budgets beyond the limits Ford called for and tax cuts that he found unacceptable. But, equally, it could be argued that Ford succeeded in containing the worst excesses of Democrat-inspired legislation, preventing the astronomical budget deficits that Reagan would later accept.[75] More importantly, he put forward the most direct challenge to the Keynesian economic consensus at that point in the postwar era, helping pave the way for a new conservative economic agenda.

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73. Arguably, there was some continuity between Ford and his successor, Jimmy Carter, in emphasizing long-term economic management to deal with inflation, productivity, and growth (see Morgan 2004).

74. And it was his solution. As Alan Greenspan notes, President Ford had "a sophisticated and consistent outlook on economic policy. . . . his budgets as president were truly his own" (2007, 65).

75. Ford later observed his greatest achievement to be, "I think we brought things down to a responsible level across the board" (Ford, interview with the author).

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