

JACK KEMP
ORAL HISTORY PROJECT

DAVID A. "DAVE" STOCKMAN

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Interviewer

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Jack Kemp Foundation
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Morton Kondracke: This is a Jack Kemp Oral History Project interview with former Budget Director and Congressman David Stockman. Today is December 8, 2011. We're doing this at the Stockman residence in Greenwich, Connecticut. I'm Morton Kondracke.

Thank you so much for doing this. When you think about Jack Kemp, what immediately comes to mind?

David Stockman: The whole era of the late seventies and how bad things looked, and the early eighties and how much possibility seemed available. That was a unique sort of juncture, elbow point, let's say, in history that has been long superseded by a lot of other things that weren't anticipated and weren't as positive, but that was a moment and Jack was the political leader of that moment in a very major way.

Kondracke: So what do you think are Jack Kemp's outstanding characteristics both personally and politically?

Stockman: He was an unusual politician. He was a real student. He was a reader. He was a self-taught intellect. He thought there was a purpose in politics beyond promoting yourself. He had a fervent agenda. Not all of it was right; a lot of it was. And that's pretty unique, because it's hard not to be cynical about American politics as it's evolved over the decades, and there are few people that were as agenda-driven, as idea-driven, that had all of the combination of talents, energy, charisma, oratorical skills, and so forth that Jack had.

Kondracke: When did you first meet him?

Stockman: Probably on Capitol Hill right after he was elected, because I worked for John [B.] Anderson as a staff assistant. I can't remember exactly which year Jack was elected. Was it 1970?

Kondracke: Yes.

Stockman: And so I got to be an admirer. Then I was staff director of the Republican Caucus, so I had floor privileges, which was a big thing for a staffer in those days, so I'm sure I bumped into him in the cloakroom and on the House floor. By 1975, when I then decided to leave Washington and run for Congress from my home district, I was pretty much becoming like an apostle, I guess you might say.

Kondracke: You ran on kind of a Kempian platform.

Stockman: Yes. It was proto-Kempian, okay? Because even by 1976, the whole supply-side doctrine, let's call it that, hadn't been fleshed out or articulated. I guess [Jude T.] Wanniski was writing about it. Ironically, what promoted me into a candidacy was that I wrote a long piece called "The Social Pork Barrel" in *The Public Interest* which appeared in the winter issue, and it was back-to-back with "The Mundell-Laffer Hypothesis" by Wanniski. I didn't even know him at the time. So we all started right about then.

Kondracke: So is that your first reading of Mundell-Wanniski?

Stockman: Wanniski wrote it, but it was called "The Mundell-Laffer Hypothesis."

Kondracke: That's right. So when you read that, what did you think?

Stockman: To tell you the truth, it didn't make a big impression. It was only as we got deep into the Jimmy Carter era and the gloom settled and the sweaters were put on—

Kondracke: Inflation going through the roof.

Stockman: Inflation went through the roof, and sort of the pessimism settled in, that this became much sharper, much more sharply articulated.

Kondracke: So you get elected in 1976. You go to Congress in 1977. How does your friendship with Jack Kemp develop?

Stockman: Well, you know, I became a regular in the Kemp group. There was a bunch of young guys. I called us "the apostles." I don't know what we were called then. But I became more and more involved in—it was a kind of rolling discussion group. Especially beginning in 1978, we began to actually do more than talk; plot strategy, introduce bills or amendments. That's when it really got some traction, I think, '78, '79.

Kondracke: You describe in your book that his office was kind of a postgraduate seminar in supply-side economics. So who all was there among members? I mean, who do you specifically remember as part of the circle, and what did they contribute?

Stockman: [W.] Henson Moore [III] was one of the—I haven't thought back that far for a while, but Henson Moore was clearly one guy in the group. Who else?

Kondracke: Where did [Newton L.] Newt Gingrich fit into this?

Stockman: Well, Newt was elected in '78.

Kondracke: Right.

Stockman: And I think he sort of gravitated to the group, but Newt had his own caucus. At that point it was a caucus of one. [laughs] But in his eyes, it was a caucus. I wouldn't say that he was a core part of it, but he was a fellow traveler.

Kondracke: [C.] Trent Lott?

Stockman: Trent Lott, yes.

Kondracke: How about [Cornelius H. McGillicuddy] Connie Mack [IV]?

Stockman: I think maybe. I'm not really sure. Yes, probably, but it was Trent Lott, Henson Moore, [William M.] Bill Thomas, I think, from California. I'm not sure. He was elected by then, yes. If I looked at a roster, I'd remember exactly.

Kondracke: [John V.] Vin Weber?

Stockman: Yes. Well, no. Wait a minute. I think he was—wasn't he elected in '80? I don't think he would have—it would depend on what period you're talking about.

Kondracke: There was a group called "the Amigos." Were you one of the Amigos that went to a Mexican restaurant and—

Stockman: Yes, we went occasionally. Yes, Jack liked Mexican food. Yes, he did.

Kondracke: So what about the staff and the outliers? Jude Wanniski and Arthur [B.] Laffer seemed to be the intellectual core of this group.

Stockman: Yes.

Kondracke: How did Jack manage Wanniski, Laffer, [Irving] Kristol, all these people?

Stockman: It was kind of on the fly. They would come and go and they'd appear and there'd be a phone call. Jack was very energetic and constantly on the move, you know. They would just appear.

Kondracke: And so how much time did you spend with that group, would you say? How often did you—

Stockman: I think it became much more intense in the second half of 1979 and then into 1980 when the presidential campaign got serious and Kemp got signed up or converted, as I think I said in my book, or

he converted [Ronald W.] Reagan, I should say. So it was really '79, '80, when it really took off.

Kondracke: I'm going to run down some of these people and just ask you to do little descriptions of what they contributed. Irving Kristol. What was his role in this group?

Stockman: As I think I explained it in my book, he was kind of the godfather of the group, the intellectual guru, the guy who really knew a lot. We were all amateurs reading our history books and getting instructed by Wanniski, who may or may not have been reliable as an historian. We thought he was. We didn't know. But Irving Kristol was the real thing, so he, I would say, was kind of the intellectual leading light, not that he was that fanatically involved in the narrow supply-side tax macroeconomics equation, although he obviously endorsed it and promoted it, but he had a lot more prestige, credibility, gravitas, I guess, at the time than Laffer, who was pretty young, and Wanniski, who was really a journalist. Nothing wrong with journalists, but--
[laughs]

Kondracke: That's okay. So Jude Wanniski. Give me a character sketch of Jude Wanniski and what his influence on Kemp was.

Stockman: Well, he was the classic ideological fanatic. It's clear to me now. It wasn't so clear then. Had it been a different time, a different place, he would have been Lenin's right-hand man. You're with us or you're against us, black and white. Everything was Manichean. He was a secular Manichean, and that's ultimately where we parted ways probably. When we got into governance and then it

was no longer a debating society at the Mexican restaurant or Jack's office, but it was decisions and facts and unpleasant, unwelcomed developments. That whole Laffer, Wanniski crew could not cope with governance. They could only cope with ideological formulations.

Kondracke: And what was Laffer's role in the group?

Stockman: He always had an answer to every issue, supremely confident, and probably claimed to have more of the economist authority about what supply-side and tax cuts were all about than even Wanniski, and certainly more than Kristol. Kristol was a big-picture conservative.

Kondracke: So was Robert Mundell part of this group?

Stockman: He came once or twice. He was not sort of engaged on the ground. He wasn't in the ground game. He was off in some library somewhere.

Kondracke: And what about [Lewis E.] Lew Lehrman?

Stockman: Near the end, Lew was involved, and Lew brought the other side of the equation because he was for the supply-side tax cuts, but he was also hard money, sound money, gold standard, which was part of what we talked about, but as things got real and, strangely enough, Reagan got nominated, and then, even more strangely, he was on the verge of being elected, the theory became, "Well, maybe we shouldn't talk too much about the gold standard because we don't want to be labeled as complete kooks." And the tax cut and taking on

this predicate of ever-expanding government and welfare state was the more urgent practical priority. Lew was really the heavy thinker in this thing. These other guys couldn't hold a candle to Lew Lehrman. He's the true intellect, scholar, and he was also a man of the market. He was at Morgan Stanley, I think, or something at the time.

Kondracke: But he was in New York?

Stockman: Yes, but he came to Washington quite often. You probably are aware of one of the things I wrote at the time, which sort of kicked this thing all off, was in December 1980, after Reagan was elected, "The Danger of a Dunkirk." I got a lot of that rhetoric from Lew Lehrman. So he was very influential in those days of transition. In fact, he was in the lineup to be Secretary of the Treasury, a great tragedy that he was not chosen, because he knew what the whole doctrine was about both on the monetary side as well as on the fiscal policy side. [Donald T.] Don Regan didn't have a clue. He was a stock trader. I don't want to get off on that. I assume we'll get into that later. So right at that point he was highly influential, but apparently after I got chosen, they decided they couldn't have two young wild men. [laughs] I think there were some people strongly opposed to him as well, but it's really—

Kondracke: Who would have been opposed to him?

Stockman: I think some of the California cabinet, for some reason. I don't know why.

Kondracke: So a lot of these people didn't agree with each other or didn't mesh personally.

Stockman: No. Well, compared to Jimmy Carter and compared to Shultz [phonetic], his budget director, and compared to—you know, this was pretty much high-cotton Keynesianism, high-tide Keynesianism, and we were violently opposed to that idea that the state is going to macro-manage the economy and promote the prosperity and lift up, ameliorate all of the injustices of society. That core idea, which had reached kind of its finale in the Carter years, was what we all opposed.

Kondracke: Keynesianism.

Stockman: Yes, yes, yes. And as a result of that, the nuances of difference as to tax cuts versus budget cuts, how much balance, how important is the monetary equation, what is the monetary equation, is it [Milton] Friedman or is it the gold standard, you know, turns out utterly diametrically different positions on the issue that really never got vetted and they'd bounce around in the background throughout the entire Reagan era.

Kondracke: So how well read was Jack Kemp?

Stockman: Quite. This is what I always liked about Jack, because he got the rap of being a football player and all of that, and he went to—

Kondracke: Occidental.

Stockman: --Occidental College. But Jack was one of the most intensely—he was one of the most earnest members of Congress that I met in all the time I was there as a staffer, member, in OMB [Office of Management and Budget], about doing his homework, about learning of things other than what was on the legislative calendar this week or what was in the political equation for the next month. He loved [Winston] Churchill, he read a lot about Churchill. He got introduced by Lehrman to a lot of the classic Austrian thinkers and Jacques Rueff, the great French economist who was [Charles] De Gaulle's advisor. So that was really impressive about Jack.

Kondracke: And what do you think about his judgment?

Stockman: It wasn't so bad. It wasn't so bad. He wasn't rash. He was enthusiastic and people could think maybe he would go too far or was too relentless with an idea. Of course, [Robert J.] Bob Dole felt that. [laughs] But that was because it was called Kemp-Roth, not Kemp-Dole or something. But I think his judgment was pretty good.

Kondracke: You describe him as among the intellectual powerhouses that you associated with, John Anderson and others of the time.

Stockman: Well, that's within Congress, okay? So that's a relative standard, right? [laughs]

Kondracke: Okay. So in the early days, we've been told that Kemp got into a lot of trouble with colleagues, both Democrats and Republicans, for sort of working outside his lane, that he wasn't on Ways and Means.

Stockman: Yes.

Kondracke: And that there was a lot of gnashing of teeth about the fact that he was getting into tax policy and stuff like that. Did you know about that?

Stockman: Oh, sure. See, that's the backstory of the whole Reagan first year. "The College of Cardinals," as we called them, [P. V. Pete] Domenici, Dole, Howard [H.] Baker [Jr.], [Mark O.] Hatfield, [Robert W. "Bob"] Packwood--you can go on--none of these guys believed in the supply-side cut. All of them resented to one degree or another how much publicity Kemp was getting, how aggressive he was at promoting it, the fact that he had gotten the California Kitchen Cabinet and Reagan to more or less embrace it.

I'm telling you, the backstory is everything we did and everything that I did to some degree in the budget role was trying to pull something together that would convince these guys it was safe to undertake the riverboat gamble. I mean, Howard Baker still called it a riverboat gamble in February and March.

Now, from the prism of history, everyone thinks, you know, that this is where the Republican Party went off the deep end. No, they fought it and fought it and were reluctant and were skeptical. That's why we came up with this quickie budget with the \$44 billion magic asterisk in it and all that, because they weren't going to go along with any kind of across-the-board multi-year deep tax cut until it was earned with spending cuts first. That's what the whole thing was about, ironically.

Of course, it misfired because in form that's what we did. The budget resolution was passed first. There was a framework, but the cuts, you know, got diluted, delayed, and dismissed. Defense got much bigger than it was supposed to, and the tax cut, as I lay out in my book, turned out to be a bidding war that almost doubled the size of what was originally intended. But the whole thing was designed to make Reagan's program palatable to the mainstream [Robert H.] Bob Michel, Baker Republicans who were not enamored whatsoever with Kemp, Kemp-Roth, across-the-board deep multi-year tax cuts. They still believed in the old-time Republican religion, and this is why this is a historical turning point of immense importance, because eventually they shed that doctrine as a result of what transpired during the Reagan years.

Kondracke: In those days, though, they were deficit hawks.

Stockman: Oh, yes. I mean, you were reporting it then. You have to go back and read your stories. [laughs] You'll see. Yes, I mean, none of them wanted to do the across-the-board tax cuts. They would have done 10 percent in one year if Reagan had been more passive, okay? That's what they would have done.

Kondracke: Now how did the Democrats respond to Kemp-Roth? He tried to describe this as John F. Kennedy revisited. I take it that that argument didn't sell with them.

Stockman: Not so much. [laughs] It was always a little bit of an opportunistic argument. But here's the thing. I mean, this is the great irony of it, because the Kennedy cut, which was actually passed

by Johnson, because Kennedy first opposed it himself, was the handiwork of Walter [W.] Heller, who was the Keynesian, über Keynesian economist of the era, and it was all based on the idea that the government knew there was more capacity for growth in the economy than the economy itself knew, and that with all kinds of fiscal measures designed to achieve potential output, things would be better administered by Washington policy. Well, this is the opposite of what Libertarian supply-side was supposed to be about, but somehow Wanniski and Laffer, who were propagandists, first and foremost, Wanniski would be the agitprop scribe of the supply-side movement. If he would have been in the 1930s, he would have been writing the pamphlets and posting them on the lampposts. So that was just opportunistic.

There was no commonality between the underlying theory. The underlying theory of supply-side was lower the marginal rates, liberate entrepreneurial energies. The underlying theory of the Kennedy tax cut was manage the economy to 100 percent of potential GDP when it's only at 98.6. Total difference in fundamental macro view, but it was convenient. Now, to answer your question, the Democrats never bought it. They thought it was a sacrilege.

Kondracke: Because it would provide less revenue for their program.

Stockman: Yes. I mean, Kennedy never really did it on the grounds that it would—they did argue there would be some feedback, but he didn't do it on the grounds that you would get more revenue by cutting rates. Heller articulated it on the grounds that it would help the economy achieve full employment. Revenue, obviously, with full employment you get more revenue. That's why the budget then, in

their view, was based on full employment. You remember that, the full employment budget? It wasn't the real deficit; it was where you'd be revenue-wise at full employment. There's some very interesting parallels in part of how supply-side doctrine really got corrupted into politicians' Keynesianism.

Kondracke: Well, but Kennedy was saying that a rising tide lifts all boats, which sounds a lot like what Kemp thought, that if you created the proper incentives, growth would ensue. Cut taxes, growth would ensue. That sounds like—

Stockman: Yes, there's a parallel. There's a parallel, but it's only a parallel of rhetoric, because when Kennedy said it, it was going to be orchestrated and leveraged from Washington. When the supply-siders and Jack said it, it was going to happen spontaneously in Fresno, in Lincoln, Nebraska, and Lake Wobegone, okay?

Kondracke: Okay. 1978, Kemp-Roth does, however, become the standard for the whole Republican Party, right?

Stockman: Right.

Kondracke: [William E.] Bill Brock engineered that. But you say that people weren't believing it. They just—

Stockman: No, Brock was really kind of an outlier. He was quasi-establishment, accepted by the Senate leaders, but he was kind of an outlier. He lost in '78, right, in the Senate?

Kondracke: He was Chairman of the Republican Party. I think he lost in—

Stockman: Seventy-six.

Kondracke: And then became Chairman of the Republican Party.

Stockman: Yes. So what he was doing as a great party man, he's a brilliant guy, was trying to keep the party from a schism, a huge schism which was there. I mean, what we called "the College of Cardinals," those old bulls, they had no use for Roth or Kemp, okay? Roth wasn't establishment, but he did have seniority on the Finance Committee, so they couldn't totally ignore him.

Kondracke: Now, just to go back theoretically, you described the supply-side movement as a combination of tendencies, some tax cuts, across-the-board tax cuts, gold standard, what you describe as ending the second republic, all of that. Various people, I take it, had various emphases in that.

Stockman: Yes. Take a menu and some people played more on the third page and some were more on the first page, yes.

Kondracke: You all along were of the "destroy the second republic and the welfare state." That was your primary emphasis?

Stockman: Well, my start on this thing was that article I wrote. Not to beat the drums about it. It was called "The Social Pork Barrel." What I was basically saying is that a whole bunch of organized lobbies

and interest groups are behind what has become the Great Society programs, it's not really helping anybody but it's certainly employing a lot of social workers and home builders and so forth. So that's the angle I came from, which was that interest-group politics will capture programs and capture the government and pervert the spending to their own interests. The doctors opposed Medicare and Medicaid when Johnson pushed it through, but ten years later were living high on the hog.

So I was coming from that kind of anti-interest-group view of the state, which is another way of saying small state, small government, but it wasn't just out of principle that government should be small; it was on a second dimension, which is if government gets big, it gets captured. Then it just becomes a food fight and a free-for-all where organized interest groups who were there day in and day out can steal from the rest of the electorate which is out trying to earn a living and pay their bills. So I had that. So I was kind of a Libertarian.

Kondracke: Kemp was not, was he?

Stockman: I think Kemp was pretty much domestic Libertarian. The whole issue of national defense is another matter, because there, that's where the influence of the other side of Kristol came in. By then he was already kind of a breast-beating neocon. So there was a whole group of thinkers who were for rearmament, the defense buildup, the scary dangers of the Evil Empire and all of that. And Kemp was much more attuned to that. I didn't care that much about it. In hindsight, I see it was a crock, okay?

But at the time—and that became one of the further splintering issues as we got into '81, '82, and '83, and that is I couldn't get any domestic spending cuts because all the rank-and-file Republicans were mad as hell about the massive amount of money which was just falling off the wagon to the Defense Department. It created such a political dissonance that they just couldn't marshal the political fortitude to vote against farm subsidies or some UDAG grants [U.S. Department of Housing and Urban Development Urban Development Action Grants] when they just saw the money dripping everywhere across the river at the Pentagon. So that, unfortunately, killed the impulse to shrink the welfare state, which then became hugely problematic because the tax cut had starved it of revenues. So now you had big defense, the same welfare state, and much less revenue. This was a large problem where the whole history of the next thirty years got started.

Kondracke: So, going into the Reagan years, Kemp is a kind of a Libertarian in theory, at least, but when it comes to cutting all those programs, then you get accused of being root canal, right?

Stockman: Well, that was clever theorizing, and this is where these guys turn out to be—by that I mean Laffer and Wanniski—just political rogues, that the Republican Party has not succeeded in the post-war period because we're always talking about eating your broccoli, that you have to maintain fiscal discipline, that red ink is bad, that the national debt is bad, and as a result of that, we're always against all kinds of programs that are popular and that people like. Now, they weren't pro-welfare, pro-poor bleeding hearts. They just had a political dodge which said we'll get enough growth out of supply-side

that we don't have to cut this stuff that much. Okay? And that then became—

Kondracke: Did Kemp believe that?

Stockman: He was tormented about it, because he didn't really like these programs, but he wanted to have a new Republican philosophy of one of inclusion, one of sensitivity, one that didn't look like we enjoyed starving orphan children or something like that. So he didn't want to be constantly caught in these brushfire wars over program-by-program cuts. On the other hand, he wasn't opposed to the idea that you needed to shrink the domestic side. So therefore, when push came to shove, he would always say, "Well, let's have a little more growth." [laughs] And that became kind of the corrupted form of supply-side. Just wait for 5 or 6 percent growth and governance is easy.

Kondracke: Did you ever have a crucial discussion with him about what was possible and what was not possible, what the limits of supply-side were? Did you actually ever hash it all out with him?

Stockman: I think there were probably a lot of arguments about it, but right in the heat of battle, like in '81 and then in '82, when the economy was going through the great disinflation, it was hard to prove your case, okay? Because he would say, "As soon as we get out of the monetary vice, the economy's going to take off like mad," and without being that precise about numbers, the growth will help alleviate this yawning budget gap you're concerned about. Now, I was a numbers guy. I had run every kind of variation of five-year, ten-year budgets

there was, and I could see that even if I plugged in absurdly high levels of growth, we still had a massive structural deficit problem. That was probably the burden of being in the numbers.

Kondracke: So when you showed those numbers to Kemp, what did he say?

Stockman: They basically would always come back—Laffer would come back saying, “You’ve got too much inflation, not enough real growth.” You know, Laffer had an answer for everything, so he constantly whispered to Jack, “Don’t fall for root canal.”

This was a clever rhetorical gambit that came exactly from Wanniski, and then it was embraced by the godfather, okay, by Irving Kristol. If you wouldn’t mind, just take a look at—there’s a passage in there near the end where I really lambast the godfather for convincing Republicans that veterans were their constituency. “Don’t touch it. Farmers are your constituency. Don’t touch it. Social insurance was the great legacy of Roosevelt. We’re not against that.” And so he basically gave intellectual cover for fiscal default. Therefore, he had one of the most pernicious influences at the end of the day, of all these people.

Kondracke: And did you ever challenge Kristol in Kemp’s presence?

Stockman: Oh, yes, I’m sure I did. I mean, I can vaguely remember, but it was always—he was a nice enough guy, okay? He wasn’t a hard-core street fighters like, to some degree, Wanniski was, but he would sit back and smile and say, “Well, you know, economics isn’t my field, but don’t get so excited about it.” In other words, it was kind of

a condescending attitude. "Yeah, you're a budget guy. You got your green eyeshades on. You're in these numbers all day. And I can understand how you're obsessed with this, but you've got to take a look at the bigger picture. The bigger picture is we're going to bring the Evil Empire down. The bigger picture is we're changing the course of history by purging the liberal elite elitism," that was really the *bête noire* that they contended with, "from the public debate, or at least challenged it."

So it was never engaged. He didn't engage on the numbers and on the macroeconomics. "Well, if you do issue a trillion dollars' worth of debt," which Reagan did over his period—actually, a trillion-three, I think it was—"how's it going to be financed and what impact does that have? What's the tradeoff? Is this a free lunch?" There was never any engagement on that. He basically said, "Don't worry about it."

Kondracke: And Kemp on the deficit, on the debt?

Stockman: Well, it would depend on what time period you were in. In early pre-Reagan administration, "Yes, we've got to have a spending-cut plank, but that's a small plank, and the tax cut is the big plank, and once the economy gets roaring, it'll all work out." Then in 1981, it was all about the tactics of getting the tax cut through, "So if we need to do spending cuts in order to earn the votes of the College of Cardinals and the mainstream Republicans, let's do what we need to do." Then we got into 1982, and, "Well, that's the deficit that resulted from twenty years of Keynesian hyper-stimulation, double-digit inflation. That's being purged. It'll go away."

What I'm saying is, as the phases of the economy unfolded, the argument shifted. And then by the time we got to 1984, when the

economy started to really rebound, then it was "Morning again in America. We're going to grow our way out of this," and I left.

[laughs]

Kondracke: Okay. Let's go back to 1979. Wanniski and Laffer think that Jack Kemp ought to be president.

Stockman: Yes.

Kondracke: And there's this meeting at the Washington Circle Hotel.

Stockman: Right.

Kondracke: In Washington. Were you there?

Stockman: Yes. There's a significant passage in my book about that.

Kondracke: So what do you remember about that plot and that goings-on?

Stockman: Well, you know, I said, "Really? We're having this meeting?" I was in the apostles' group, and I said, "Really? Jack, I mean, how can you be thinking about running for President?" I mean, because to me these are big, big figures that ran for President. These are big guys. And although I saw Jack as a rising star, I didn't think he was in that league at all. But I went out of loyalty. So I get there and I see some really heavy-duty players there.

Kondracke: Who?

Stockman: Irving Kristol, who I was totally surprised by. This was, like, the fall of 1979, let's say. [Francis J.] Frank Shakespeare, who probably everybody's forgotten about, but he was kind of a big player in the Nixon era, and there was one other—

Kondracke: [Laurence H.] Larry Silberman was there.

Stockman: Oh, yes, Larry Silberman, yes.

Kondracke: And who else? Wanniski?

Stockman: Yes, and then there's the whole usual group. I think probably Henson Moore was there, Wanniski, Laffer. I'm pretty sure Lehrman was there.

Kondracke: And Kemp himself?

Stockman: Oh, yes, yes.

Kondracke: So what did everybody conclude? That Kemp ought to do it? What did Kemp say about it?

Stockman: The idea was, this is a serious proposition. The primary season today is about the—it was equivalent to—I think it was probably November, December, if I can remember right. But the primary process was not so frontloaded then. So I think the conclusion of the meeting was, "This is an exciting prospect. Let's

explore it further.” So it was kind of the exploratory committee without a name and without an announcement that came out of that.

Kondracke: And then Kemp says, “No, I’m going off with Reagan”?

Stockman: Well, what happened was then the Reagan people saw it coming, and they basically coopted Jack. They invited Jack, Laffer, and Wanniski out to the ranch, so to speak, out to California for a few days, as I remember. This probably was January or February of 1980, January. The idea was to learn from them about supply-side economics and Kemp-Roth, but it was really to coopt them into the Reagan camp.

And came back and he said, “We converted him. We converted him.” I was stunned. I was shocked that he was for Reagan, because at that point I thought Reagan was some kind of right-wing human-events—my view of the world was I was a Libertarian, social liberal, and I was all for small-government taxes, liberating the entrepreneurs and all that, but I didn’t believe in all the rest of this stuff. As a young guy, I had a pretty dim opinion of old-fogy human-events right-wing anti-commie school of “Why can’t Johnny pray in school?” philosophy. And that’s what I thought Reagan was, and I wondered what the heck Jack was doing. So it took me a while to come around.

Kondracke: When Kemp goes out there with Wanniski and Laffer and so on, did they convert Reagan or was this something Reagan already believed, based on your memory?

Stockman: Well, in his mind he—I mean, he was always for smaller government, which meant lower taxes. You remember 1976 he had a

big tax cut, which then they tried to destroy him with. So after he converted to be a conservative, he had that fundamental low-tax view which the conservatives of the 1950s had. I would call it the George [M.] Humphrey—he was Eisenhower's Secretary of the Treasury—view.

Then Reagan also had the antipathy to high marginal rates that, of course, by legend he had experienced in World War II as an actor in the 90 percent bracket, so he was highly disposed, but he was also a balanced-budget guy, so what happened was the charlatans, which they were at the end of the day, Laffer and Wanniski, convinced him that cutting taxes would lead to a balanced budget. That was his reluctance. That was the reluctance of the whole Kitchen Cabinet. I mean, these guys had been brought up on the gospel of balanced budgets, and they loved the sound of these income-tax cuts, liberate the entrepreneur, provide incentives, get the government out of the way. They liked all this, but they had a reluctance because they were afraid, well, what if the deficit explodes? [laughs] And those two guys convinced the whole Republican establishment, or at least the Reagan California establishment, I should say, that, "Don't worry."

Kondracke: Kemp believed that, too, though, did he not?

Stockman: Yes.

Kondracke: So was he a charlatan or not?

Stockman: No, because Kemp, I think, believed it by their warranted word. In other words, they were supposedly the experts. Laffer was supposedly the economist. Wanniski was supposedly the brilliant financial journalist who had studied things deeply. So he bought their

view, but Kemp was a little broader than that. As I said, he did realize that he had to shrink the spending side. Laffer was just cavalier. "Don't bother. It's not that important." And Wanniski was worse. "Why do you want to pull—you're Dr. Root Canal." He named me a lot of things, but that was one of them.

So it was a gradation. Wanniski was utterly cavalier and irresponsible. Laffer was just clever and had all his little equations that could show you that things would balance. And Jack had the right impulse because he did understand that the economy would grow if we got risk-taking and savings and entrepreneurs and business creation and so forth. He understood all that and he wanted to promote it, and he didn't want to end up being just the kind of Republican budget cutter that had gotten the party, in his view, nowhere for twenty-five years.

Kondracke: So the question becomes, though, was he sort of in the thrall of Laffer and Wanniski.

Stockman: Yes, I think they were the Svengali, both of them. They were like a collective Svengali.

Kondracke: So describe the plan to get you budget director. How did that unfold?

Stockman: Well, first of all, I had gotten a warm spot in Regan's view of things because I was his sparring partner in the debates.

Kondracke: You played John Anderson.

Stockman: At first, and then I was Carter in the second debate.

Kondracke: So how did you get those positions?

Stockman: Well, the first one, ironically--just shows you there's so much irony in this--they were afraid in the Baltimore debate--which, remember, they couldn't agree on a three-party debate thing, so it was one-on-one--that Anderson was going to destroy Reagan because Anderson was one of the greatest debaters in the House of Representatives. I think you covered him. So they took him off the campaign trail for a week, and [James A.] Jim Baker, who at that point was now running the campaign, casting about, well, who really understands where Anderson's coming from, "Hey, how about this young Stockman guy?" Because I'd worked for him for six years. So that's how they got me.

Then Reagan thought it worked out so well that when it came time—I was back in Michigan campaigning for reelection, and I get a call from Baker. "Get back here. He wants you to be Carter." So I did that for a week.

So then after the campaign, he was doing, after the election, his week of thank-you calls. He called me one day to thank me for what I did and my role in the debate preparation and so forth. He said, "Some of the guys were thinking you're really the kind of young energetic face that we need to have more of in the Republican Party. Is there any role you'd like to play in the administration?"

I did hesitate. I said, "Yes, I'd like to be budget director."

And he said, "Oh. I'm not sure exactly what that position is, but I'll go talk to the fellows."

So then I told Kemp. He got a hold of the Prince of Darkness, [Robert D. S. "Bob"] Novak. Novak wrote a column about it. A few days later, they called back and said, "Talked it over with the fellows. They think you'd do a great job." It was that simple. There wasn't any big campaign. There wasn't any big plot. I just happened to have the nerve to say it when he was making, like, a perfunctory thank-you call.

Kondracke: And what about your Dunkirk memo?

Stockman: That was after I was already designated.

Kondracke: What did Kemp try to do to get Lehrman be Treasury Secretary?

Stockman: Then the campaign started, so probably if you go back, you'll see some Novak columns. I wouldn't be surprised. Jack began to call people and try to agitate. I don't remember a lot more detail about it, but then after I got selected, there was a mini campaign for [Lewis E.] Lehrman, and that's where someone decided you can't have all these young whippersnappers; you need somebody with some gray hair.

Kondracke: So you describe on December 18th, you're appointed now and you go up to New York and you start talking around to people in the markets and stuff like that. Then there's this dinner at the Century Club with Kemp, Lehrman, Wanniski, and so on.

Stockman: Alan Greenspan, too.

Kondracke: Greenspan, too. So already there's beginning to be doubt among what you call the central committee about your—

Stockman: Oh, yes. There was doubt for this reason. The purpose of the round robin, I went to all the Wall Street houses, at least a lot of them. I went to Morgan Stanley. I went to Bear Stearns. I just want to throw this in the record. I didn't go to Goldman Sachs because it wasn't important then. [laughter] The purpose, the trip was organized by [Richard J.] Dick Whalen, okay, who had a different angle on things. He was sympathetic to supply-side, but he was a much broader, deeper, more nuanced—

Kondracke: What was Dick Whalen?

Stockman: He was like a financial journalist. He'd been involved with Nixon and he was a consultant, economic consultant. But he was much more plugged into Wall Street and he knew they were scared to death of Reagan. Was he going to massively increase the deficit? Who could possibly believe these tax cuts are self-financing? In December 1980, the bond market was going south, as I remember. The yields were pushing up to 13, 14, 15 percent on the ten year.

So Whalen organized this trip to get me up there and try to calm things down and assure them, so that the archetypical meeting was with Henry Kaufman at Salomon Brothers. Remember Henry Kaufman? Maybe you don't, "Dr. Gloom"? He was the great bond market economist at Salomon Brothers, which in those days was the bond house, and the bond market was unraveling.

So the purpose of the trip was go around and assure them we had spending cuts front and center, big time, serious. We meant it. We didn't believe in magic. We didn't believe in tooth-fairy economics and all this. So that was my job, to go convince the bears in the bond market on Wall Street that we're going to have a balanced program and it wasn't the way it had been characterized as "voodoo economics" and all that, first by Bush, then the Democrats.

So they got a little nervous, because they were in the meetings. They were in a lot of these meetings. I'm going all the talking, and I'm laying out, "We're going to go after this one. We're going to go after that one. The farm subsidies are going and the veterans are going to be cut back. The food-stamp program is going to be reformed," and so forth, which went over quite well, but it made Laffer and Wanniski real nervous. We weren't even sworn into office yet, and here's Stockman preaching root canal.

Kondracke: Kemp's not there?

Stockman: I don't think he was, no. No, Kemp wouldn't have been there. No.

Kondracke: So it's Lehrman, Wanniski. Who else?

Stockman: I don't think Laffer was around. Maybe he was. But I know Wanniski was there.

Kondracke: And so how did you defend yourself against—

Stockman: I don't think I had to defend myself. I think they were just a little bit apprehensive about what they were hearing, because I should have been up there talking about the wonders of tax cuts, and I was only talking about spending cuts. "There he goes. He's just named three weeks ago the budget director, and he's already got on the green eyeshades, got out the root-canal playbook," and that was concerning to them.

Kondracke: Why did you decide to talk to [William] Bill Greider all during this process?

Stockman: Because I had the foolish illusion as a young man that—he was the front-page editor of *The Washington Post* then—that this would be a nice private forum to explain that we weren't as backward and as *Human Events* Neanderthals as *The Washington Post* elite press would like to have portrayed Reagan early in his tenure, early in his administration. So I met with him every week, I thought on background, and tried to tell him and explain. In other words, it was like one huge amplification of what's going on. "You don't understand. Don't interpret it that way. We're going to go after the oil-depletion allowance, too, so this isn't just about picking on the poor people." I had a phrase that I called "We're trying to attack weak claims, not weak clients." I thought that should appeal to *The Washington Post* sensibility, because it's all about justice and all that. So that's what I was trying to do. I was trying to get us a fair hearing.

Kondracke: Were you talking to Novak, too?

Stockman: Yes, but not as much. I mean, yes, I did, but Novak was more on a regular way basis. I mean, I met with a lot of journalists. Novak was obviously the supply-side mouthpiece, but the Greider thing was different. Every Saturday morning we had breakfast. I still don't hold it against him. I mean, there was an honest misunderstanding at what point in future history he would be free to use the information. I thought it was like distant history, and he thought after the tax cut passed and Congress went on vacation, you know, that history had been fulfilled.

Kondracke: In 1981, you concoct this "Rosy Scenario" based on growth numbers. Now, did Kemp buy the "Rosy Scenario"? Was he a believer?

Stockman: He might have been, but you have to understand, "Rosy Scenario"—and I laid it out in a whole chapter in my book way back when—was an accident of the committee of people with different angles on the whole doctrine, so you had monetarists, supply-siders, and traditionalists. [Paul] Craig Roberts was the supply-sider, and his deputy was [Stephen J.] Steve Entin, Treasury. Then the monetarists were Beryl Sprinkel, and he was Deputy Undersecretary, I think, for Monetary Affairs. And traditionalist was Murray [L.] Weidenbaum, who was head of the CEA [Council of Economic Advisers]. So we would go round and round and round about how much inflation was realistic to project, how rapidly it should fall, how much growth was possible, how much nominal GNP [Gross National Product], which is the sum of real plus deflator, you could get with a tight money policy, which the monetarists wanted. So it was a circle that couldn't be squared, so it ended up as a compromise.

What was wrong with “Rosy Scenario,” by the way, was two things. One, it was criticized for having inflation fall too fast, and actually inflation fell even faster when finally the tourniquet was put on by [Paul A.] Volcker [Jr.]. And second—and this was wrong—that you wouldn’t need a recession first and then growth. Okay. But “Rosy Scenario” projected that in the first two or three years the GDP [Gross Domestic Product] would grow about 5 percent a year, 5 and a half percent. It actually did. In 1983, ’84, and ’85, average GDP rose 5.3 percent. The problem was it left out 1982, and the economy went into a crevice, a deep dive, in order to first quell the inflationary fires that were under way.

So what really ended up being mistaken about “Rosy Scenario” was that we projected way too much nominal GDP, and revenues are based on nominal GDP. In my book I call it “the trillion-dollar error,” because the whole thing was a five-year plan, you’re going to bring taxes down dramatically over five years, shrink the state, end up with a balanced budget in ’84 or ’85. For the first time—we’d never done five-year budgeting before. People had done projections, but no one had really done a fiscal plan that had that long of sort of runway in front of it. And when we overestimated revenue, GDP, nominal GDP by a trillion, we therefore overestimated revenues massively, and that’s where the whole equation got out of sync.

Kondracke: So when did you realize that this whole thing didn’t add up? Reagan was after these huge defense increases. In effect, it was voodoo economics.

Stockman: No, it was voodoo assembly of the components. In other words—and I think I laid it out in my book, but when Reagan

presented it to the Chicago Economics Club, his first real fiscal plan in the campaign, which was September 1980, the plan was put together by [Martin] Marty Anderson and Greenspan, and it had 5 percent real defense growth from the defense level that was in place in 1980, but that was right at the time when defense supplementals were surging because we'd had the embarrassment in Iran and the Soviets had invaded Afghanistan. This was the wave of remilitarization, rearmament sentiment was under way in Congress.

The reason I'm mentioning this is that by the time we got to February 1981 and had to put the numbers together—and this is what I mean by the assembly of the components—defense spending was up from 140, pushing the \$220 billion range, and then they decided, well, if Carter came out for 5 percent real growth, which he did in his outgoing budget, we can't have 5 percent or how are we a strong defense administration. So they went for 7 percent, but they started 7 percent real growth from 220 billion rather than 5 percent real growth from 140. Do that a few years. Massive difference. So the defense top line got ballooned way beyond what people thought who did the original arithmetic of the Reagan idea.

Kondracke: Kemp probably then was still on the Defense Appropriations Committee, wasn't he?

Stockman: He was.

Kondracke: Suffice to say, was he in favor of the ballooning?

Stockman: Yes, because he wasn't looking at it just in terms of how it fit in a larger fiscal equation. It was more now the neocons were in

there, they were in the Pentagon, they were showing how badly everything had been left to decay, let's say, by the Carter administration. So he was all caught up in "We've got to catch up fast," the whole rearmament campaign. I don't think he was even looking at the numbers, but it really blew a hole in the side of the whole equation. So it didn't have to be voodoo economics if you had the right defense growth and if you cut domestic spending enough and if you didn't double the tax cut by adding in all of these Christmas tree ornaments to get the home builders and the oil-depletion people and the peanut growers and on and on. If you hadn't done all of that, you could make those numbers work. The problem is, politics took all three pieces of the numbers--that's why I called the book *The Triumph of Politics*—in the wrong direction.

Kondracke: The question again is, when did you realize that this whole thing wouldn't add up?

Stockman: I knew exactly. When we take a break here, I'll show you the picture.

Kondracke: Okay.

Stockman: August 1981. After the tax cut finally passed, the last big push, the reconciliation bill passed in June, the tax cut in late July, then we had to do the mid-session update, and the numbers just—because by then the economy looked totally different than it had in February. By then it was clear it was really slowing down, that there was likely a recession coming, and when we re-estimated the five-year outlook in late July and then added in the much bigger cost of defense,

because by then it had—I tried to get it reversed. I couldn't. The 7 percent top line was now sacrosanct, and [Caspar W.] Cap Weinberger was hanging onto it like a dog with a bone in its mouth, you know. [laughs] He wasn't going to let his jaws loosen.

The massive expansion, the tax cut was now a done deed so it could be priced out and was much, much bigger revenue loss, especially in the out-years. I laid it out again in my chapter called "The Politics of Giving." It shows how we passed the tax cut. One by one, stuff was added, like repealing the estate tax. In order to make the numbers work, they'd come to [Donald T.] Don Regan. He says, "As long as it doesn't impact anything after 1984, it's okay." So it was all done in the by and by, see.

So then when we did our five-year forecast in the summer of 1981 and we started to look out to '85, '86, and '87, it was just frightful, because then no one could contemplate the idea of a triple-digit deficit. I mean, we were running against Carter for a 45 billion or a 70 billion deficit. So this was shocking.

So then everybody started to disperse, vacation, congratulations, you know, the greatest change in economic policy since the New Deal, and then I insisted that we have a budget review update. They brought everybody out to California. I laid out the numbers, and everybody is stunned. Then as time went on, everybody—you know, different positionings evolved. Some were in denial; some were willing to take it on. You know.

Kondracke: What about Jack Kemp? Did you ever say, "Jack, here it is"?

Stockman: Yes, that's where we started to part ways, in August 1981.

Kondracke: Is there a specific meeting that you recall?

Stockman: Not that I recall, no.

Kondracke: So you let him in on these numbers and he said what?

Stockman: I mean, his position was, "You've got to give it more time. That this is the greatest victory in history. We have not yet begun to see what tax incentives will do." He was becoming enunciate [phonetic] at that point, okay, caught up more in the euphoria. This was a big change in policy, you know. Caught up more in the euphoria of the policy pivot which had occurred, which we all agreed with. We were marching in a new direction since the New Deal and Kennedy and Johnson and Nixon, being "We're all Keynesians now," and so forth.

But I, unfortunately, had drawn the straw to be the green-eyeshades guy and was terrified by the numbers. He was, let's say, thrilled by the victory. And so depending on your lens, you see different things. My green eyeshades terrified me, and his historic victory—and they all pooh-poohed me when I campaigned for this in '78 and '79, and here we've done it, we elected Reagan, we elected a new Congress, we beat [Thomas P.] Tip O'Neill [Jr.] at his New Deal socialism, or whatever people wanted to call it. He couldn't see it. Jack didn't want to look at the numbers. I mean, he could see them; he just didn't believe them.

Kondracke: You describe a July 23rd meeting "a day that will live in fiscal infamy."

Stockman: Yes.

Kondracke: Jack Kemp is there, where the Reagan administration caves in. I mean, Kemp-Roth they're in favor of, which cost almost a trillion dollars over a ten-year period, I guess.

Stockman: Yes.

Kondracke: But 10-5-3, which in depreciation allowances and then all these other add-ons, which is another more than a billion dollars, did Kemp favor all of these things, the whole ball of wax?

Stockman: By then he was totally tactical. In other words, a lot of these he would have opposed as using the tax system to steer people into the All Savers Certificate, which is what the S&L industry wanted, or certain kinds of tax shelters that the Oil Royalty Association wanted. So he would have, in philosophy or theory, said these aren't that good, but by then, this was vote counting. They all came in, you know. They put their bid on the table. You read what I wrote. One by one, they all got something, and it added up and all was backloaded out a few years. The thought was, "We have to pass this. It's historic. It's changing the direction of policy. If we go overboard, we can deal with that later." Because no one had any experience in modern times with fiscal problems of this dimension. In other words, you can see it on a piece of paper, but it didn't mean anything to say in 1987, "We're going to lose 92 percent of the estate-tax revenue," because 1987 was so far away, that people had no experience with mega deficits.

Kondracke: But when it came time, when you started advocating pullbacks from all this, TEFRA [Tax Equity and Fiscal Responsibility Act of 1982] and all the rest, Kemp opposed you on that.

Stockman: Oh, yes.

Kondracke: So he became, in effect, a defender of all these things that were at variance with supply-side purity, right?

Stockman: Yes. He became a defender of the summer of '81. In other words, that line in the sand had to be defended, and if we start retreating, we'll end up back where we started. That was the view.

So then we had a mini effort to retract in September. It was called the September Offensive. [laughs] Some offensive it turned out to be. The idea was, let's roll back this defense buildup or stretch it out. Didn't get very far with that. Let's have a new round of tax cuts, which the College of Cardinals really went nuts on. I mean a new round of spending cuts on top of the ones that they couldn't implement, that they'd already legislated. I think I was pushing hard for some rollback of taxes. We didn't get very far on that.

But by the time we got to the budget in the winter and we had to present the FY-'83 budget in January, the numbers were really bad. The projection was a \$200 billion deficit, which was shocking. So we did get a few loophole closures in that budget, and then the TEFRA negotiations, which is the irony as we speak today, because that was passed in August. I think it was signed in August or September, and it did provide for a tax increase mainly through loophole closings and some excise taxes and some other things that amounted to 1 percent

of GDP, which in today's terms would be \$150 billion. So it was a big thing.

Kondracke: Kemp was against it.

Stockman: Oh, yes. And that's when the Republican Party then split, and it was passed with the leadership of the White House, Darman, Baker, and myself. The [Edwin "Ed"] Meese [III] wing kind of reluctantly went along, but they were always looking for some problem with it. And it was then put through the Hill by the Republican regulars, Bob Michel, Dole, Baker, Howard Baker, all of them. They knew it was needed. And that battle over TEFRA opened the fissure that just got wider and wider and wider every year after that.

Kondracke: Ultimately Kemp goes back to tax reform and he is in favor of closing loopholes, lowering rates and closing loopholes. But at that stage he was still in favor of all the loopholes that had been enacted in 1981?

Stockman: I don't think he was really in favor of the individual loopholes.

Kondracke: He was against closing them, though.

Stockman: Well, he was reluctant to embrace the idea of revenue-raising, because he was afraid that once you do that, you're back to the old fiscal policy. You're back to the old politics of fiscal austerity as opposed to exuberant growth.

Kondracke: So on the spending side, you describe a meeting in Bob Michel's office, part of the September Offensive, I think. I don't know exactly when it happened, but September?

Stockman: It was right after Labor Day, yes.

Kondracke: So he accuses you of betrayal, and you thought that you didn't know that you were going to be friends anymore after that. This was over spending.

Stockman: Yes.

Kondracke: So he's now in favor of spending?

Stockman: Well, I wouldn't say he's in favor of spending; it was more it's the wrong message. It's more root canal. We had this shining moment in July when the whole Reagan plan was enacted, and it was about growth and about reviving the private economy and incentives and entrepreneurs and all that, compared to the Jimmy Carter "sit in front of the fireplace and freeze." And the message, he thought, was wrong. I mean, Jack was against this stuff on messaging grounds, as they would say today. We didn't even know what messaging was then. [laughs] But that's essentially what he was doing. So it was the wrong message, more root canal, backtracking on taxes. Those were two, in Jack's view, wrong messages.

I was more a captive of the numbers. I didn't particularly want to backtrack on taxes, but I didn't see how I could get the votes otherwise, okay? And of course I was for more spending cuts and I was happy to have the opportunity.

Kondracke: So you're accused of being—you said that you're the [Leon] Trotsky of the movement. Did everybody come after you? And what did Kemp say to you during these times? Was your friendship strained?

Stockman: It was more a parting of the ways. In other words, we didn't have any shouting matches or any abrasive personal confrontations. It was just we didn't talk to each other anymore. Soon there would be kind of dark columns coming out of [Rowland] Evans and Novak. [laughs] About how Stockman was off the reservation. That's how it worked.

Kondracke: You did go to this dinner on September 22nd. The Israeli finance minister--it's at Kemp's house.

Stockman: Yes.

Kondracke: Sort of berates you in the morning for wanting to delay the effectiveness of the Kemp-Roth cuts.

Stockman: Right.

Kondracke: And then he invites you to dinner.

Stockman: Yes.

Kondracke: You say that he's incapable of anger.

Stockman: That's true. As I was saying, there was never any hostility about this. There were never any confrontations. It was just a chilling, you know, a breakdown of the relationship.

Kondracke: What did people in the Reagan administration think about Kemp? Did you ever hear Ronald Reagan talk about Jack Kemp?

Stockman: Yes. He liked him a lot, and Meese liked him. Darman thought he was a megalomaniac. Baker knew that he had to deal with him, but he was just one of the many players on the chess board that Baker had to keep aligned, and he found him to be somewhat of a pain in the rear, but he respected him and realized that he was an important constituent.

Kondracke: [James L.] Jim Buckley says that he witnessed a conversation between the President and Jack Kemp, where the president said, "Jack, just how low do you think taxes can go?" And it was kind of a dismissive—he thought that it was a putdown of Kemp. Did Reagan ever exhibit any doubt that Kemp was going too far?

Stockman: No.

Kondracke: So do you remember anything he ever said about Kemp?

Stockman: I'm not recollecting anything at the moment, but he saw Jack as a real stalwart ally. He represented what Reagan wanted to see as the future of the Republican Party that he was reviving to its original roots and mission and philosophy.

Kondracke: Do you remember any conversations with Darman about him?

Stockman: [laughs] Yes. I mean, Darman was a cynic. There's no doubt about that. And he didn't speak overtly negatively about Jack, but he was cynical and dismissive.

Kondracke: How about Regan?

Stockman: Don Regan had an ample ego. Let's put it that way. And Jack was a contender for some of the space that his ego wanted to occupy. Let's put it that way. He worked with him, I think, pretty cordially. Don Regan was a very affable guy. He got along with a lot of people till he would have a temper tantrum and then it would be over in a day and he would start up again. So he worked well with Jack, but he saw Jack as a contender for the limelight.

Kondracke: When Jack started opposing TEFRA and the other tax increases that you guys felt were necessary, there were a bunch of stories leaked by unnamed White House officials saying that he was doing this for political reasons, that he was self-aggrandizing, and that sort of thing. Where would that have come from?

Stockman: Well, I would guess—I wasn't involved in it myself, but I would guess it would come from the wing of the Baker, Darman suite of offices. That's what I would guess. They were getting done what needed to be done.

Kondracke: They weren't true believers, supply-siders.

Stockman: No, no. Not that they had any huge deep philosophical problems with it. It was they were just practical guys, and supply-side was a good direction, but then how far can you get it? And what's Howard Baker going to put up with and why is Bob Michel calling me and nagging and complaining and whining? Because he can't keep the regulars in line. You know, that's the world they dealt with.

Kondracke: Why did gold never get on the Reagan agenda?

Stockman: Mainly because we had the wrong Secretary of the Treasury and the wrong Undersecretary for Monetary Affairs. Beryl Sprinkel was an absolute Friedmanite monetarist.

Kondracke: Define that.

Stockman: Everything was driven by the money supply, M1, M2, and their view, the Friedmanite view, at that stage of history was if you just kept it in a narrow channel, 3 percent or 4 percent, and didn't try to maneuver and manage and control the markets, and kept fiscal policy out—they didn't believe in fiscal policy. They didn't believe in any of the Keynesian stuff and so forth. But Friedman was very anti-gold standard, and he's the evil genius of the whole modern era, as far as I'm concerned, because he convinced Nixon to default on Bretton Woods, default on our obligations to convert our money, which was the heart of the whole fixed exchange-rate system, and once that happened, we got into a money-printing world that we have today.

Now, that's neither here nor there, except that that was an important juncture in Republican history in terms of economic policy,

so what had been the view in December 1980, which was very gold-standard oriented--Don Regan wasn't around yet. He was the default candidate, because I think there was Simon [phonetic] they wanted. Not Simon. There was someone else in line and he got vetoed, so they came up with Regan as, one, he's plausible because he's head of Merrill Lynch, and, second, he's not really tagged with being in one camp or another.

But when Regan got there, his deputies were already appointed. Sprinkel was already Undersecretary for Monetary Affairs, and Paul Craig Roberts was—so he had a supply-sider whispering in one ear and a monetarist in the other ear, and they were saying opposite things half the time. But Sprinkel wanted nothing to do with gold standard. Don Regan was a man of the modern market that sounded a little [unclear] to him, and so he pretty much put the kibosh on it.

And then they had that commission. Remember we had a commission and actually [Ronald E.] Ron Paul was on it, Lehrman was on it, and the commission was Regan's mechanism to bury the issue. He didn't want anything to do with it because he thought Wall Street no longer cared about it. And that was an important failure. That was an important failure right there.

Kondracke: You at one stage said that if the gold standard had been applied, it would have been even more deflationary than what Volcker did.

Stockman: Right.

Kondracke: So where were you on the gold standard?

Stockman: I was for it, but, I mean, I didn't have any deep comprehension and I didn't know a lot of the history. But, yes, I was very strongly pro gold standard. I was really mesmerized by Lehrman, and Lehrman knew why he was for it and why he had to anchor the system in something besides fiat money, and that fixed exchange rates are the only way to keep the monetary system stable. So he knew all—and I took his warranted word, and it turns out he was right.

Kondracke: So are you now affiliated with the Lehrman, [John D.] Mueller, [Jeffrey L.] Jeff Bell, gold—

Stockman: Yes, I'm pro gold standard.

Kondracke: But Jack Kemp blamed Paul Volcker and his raising interest rates for the recession, right? And wanted Volcker fired.

Stockman: Yes, because Wanniski, at his worst, as I remember, in that period had a theory if you declared the gold standard, inflation would melt away overnight. So therefore you wouldn't have to go through the Volcker torment and the Volcker crushing of the credit system and temporarily of the economy. So there was always this magic instantaneous effect that Laffer is the worst proponent of, but Wanniski was always there, too. In other words, cut taxes and the announcement effect will cause behavior to change even before the ink is dry on the parchment. Declare a gold standard and inflation, which was deeply imbedded in everything, labor contracts, CPI [Consumer Price Index] clauses, so it's all going to disappear.

So that's where their ultimate ideological irresponsibility lies, because politicians love to hear instantaneous, no pain, everything

changes instantly on the announcement effect, and that's where they began to backbite at Volcker, which, ironically then, it turns out, that the defenders of Volcker in the White House is the Texas monetary policy of Jim Baker. I mean, Jim Baker didn't like tight interest rates either, but ultimately it wasn't the California conservatives, supply-siders who kept Reagan bucked up.

Kondracke: Wait a minute. Were the Californians real supply-siders? Meese and those guys?

Stockman: Well, they had their Adam Smith ties. Let's say that, okay? [laughs] But what I'm saying is, Volcker was doing the medicine that conservatives for twenty-five years had said was necessary, or at least for fifteen after things, guns and butter, got off track with Johnson in 1965-'66, and yet when it came to giving him the final political cover he needed to get the job done, it was the Baker wing that essentially provided the shield, kept Ronald Reagan bucked up, President Reagan bucked up, although he had his own convictions. You have to give him a lot of credit. He believed what Volcker was doing was necessary, as painful as it was. There's never been any President who was willing to tolerate any kind of pain or tell the electorate any bad news since then or even for a lot of years before.

But the carping started from the supply-siders, because they thought the deep recession was invalidating the tax cut. Of course, Tip O'Neill was out there saying, "Yeah, we did exactly what he wanted, and what did we get? A hundred percent unemployment." So they had their defensive reasons.

Kondracke: The actual fact was that monetary policy was trumping fiscal policy.

Stockman: Yes. Right.

Kondracke: So when the Greider article came out and you are quoted as saying Kemp-Roth was always a Trojan horse for bringing down the top rate and it was the only way to make trickle-down economics palatable, did you actually say that to Greider?

Stockman: Well, it's probably one of the more unfortunate translations of that period. I didn't mean to say—I can't remember exactly what I said. I mean, a tape recorder at a breakfast table at the Hay-Adams Hotel thirty-one years ago or something. But what I was saying is an important piece of this is getting this absurd 70 percent top rate on investment income and the high marginal rates down, and the Republicans in the past had tried to do that during the [Dwight D.] Eisenhower era, but it never got any traction because there wasn't any popular benefit to it. But the beauty of the across-the-board was that in the process of bringing down all the rates, you got the top rates down proportionally, and it was probably the only way you could do it. So I didn't mean that the rest of it wasn't important. I mean, it's been demagogued by the Democrats forever.

I should have said it was kind of the—what was the word for it? It was one of the associated benefits of across-the-board tax cuts. It was the silver lining. That's what I should have—I should have used the word "silver lining," not "Trojan horse." What I meant was, that was the silver lining.

Kondracke: But what about the trickle-down part of it? What it sounded like is that “We’re really doing this in order to benefit the rich, and it’s all about trickle-down.”

Stockman: No. You know, that is so—

Kondracke: That’s what it sounds like and that’s what the Democrats said, and I just wonder—what I’m really getting to is, what was the reaction from Jack Kemp when he found out about that article?

Stockman: Well, his immediate reaction was not all that negative. In fact, I was at a restaurant having dinner with some people, and in those days no cell phones or anything. The waiter comes and, “You’ve got an urgent call.” It’s Jack and Novak. They said, “We just got a copy of the Greider article. What the hell are you saying?” It wasn’t like they were steaming and angry and denunciatory; they were just, “What the hell is this? You must have been taken out of context.” Well, I was.

Kondracke: Did you explain that you were taken out of context?

Stockman: Yes. Well, I hadn’t seen it, so I said, “Well, I’ve got to get it. It doesn’t sound right to me.”

Kondracke: It was your birthday.

Stockman: Yes. [laughs]

Kondracke: And Kemp wished you a happy birthday.

Stockman: [laughs] Yes. I'm saying it wasn't like an angry Judas moment. It wasn't anything like that. But the unfortunate part of it was that Jack was really a man of the people. He wasn't out to help the rich, but he knew that the entrepreneurs and the investor class was an important part of the equation, but he was out to lift everybody. He really did believe in this whole "a rising tide lifts all boats." He really was a populist in that sense. So the idea somehow there was a kind of plot to actually help the top one percent of the income spectrum or something like that, as it's been portrayed and now in revisionist history reiterated, never crossed anybody's mind. We wanted more rich people.

You know, Jack believed the bus driver was going to become a rich guy. The farmer was going to be rewarded and expand his acreage and become prosperous. You know, Jack was from Buffalo. He thought Buffalo was going to become prosperous. It wasn't anything about some rich people living—it wasn't about Scarsdale. Let's say that. It was about Buffalo.

Kondracke: Do you think that was unrealistic, his vision?

Stockman: Well, directionally I don't think it was. Philosophically I still agree with it. It's just a question of how far and how fast and what other complicating factors might arise in the world that would make it difficult to get there, but I think the vision, it's a great vision.

Kondracke: How much heat after it did you get from the central committee?

Stockman: A fair amount. I mean, it didn't come to me directly, but, you know, it was—

Kondracke: Novak said he never spoke to you again.

Stockman: I think that's right, yes.

Kondracke: You were regarded as an apostate by the—

Stockman: Well, when that came out, remember that was November 10, yes. At that point I became an apostate. And then at that point the economy was settling into its collapse, and the numbers were turning really bad, and the time to retract part of the tax cut and to have a mid-course correction in policy had arrived, and I couldn't see any other way to go and so I had to embrace it. Then that really put me in ill repute.

Kondracke: You were in favor of tax increases.

Stockman: Yes, and revenue increases. I never wanted to raise the marginal rates. We didn't even get to that point, but I did want revenues and we did get revenues, TEFRA, then in 1983, the whole Greenspan Social Security reform, which is now kind of celebrated as a bipartisan moment, was a tax increase. That's all it was. The spending cuts occurred thirty or forty years in the future. What it did was raise the payroll tax over three or four years and generated a fair amount of revenue. Then in 1984, we had DEFRA [Deficit Reduction Act of 1984], which was another little tax increase. We had an

increase in the gas tax in order to pay for a trust fund. So there was a lot of tax increasing going on.

In fact, the original tax reduction, when fully effective, the 1981 bill took a slice of 5.8 percent out of GDP. That's massive. I mean, today it'd be a trillion dollars a year. And we took back about 50 percent of it in those sequential tax increases, which today would be 400 or 500 billion.

Kondracke: We're getting close to the end here. How do you account for the fact that the supply-siders all say in the end what we had was seven fat years, you know, that this thing basically worked? Growth came back, the deficits were big, yes, but we conquered the Soviet Union, that this was all a big success. What's your—

Stockman: Well, those are a lot of different issues. I think the Soviet Union was falling apart in December 1980, and whatever Reagan did didn't have much to do with what was going to happen inexorably. Republicans, I mean, conservatives should have recognized that. If we really believed that communism didn't work, it should have manifested itself, and it did.

The growth that we had, on average, counting the down and the up over a period of time was just average, okay? Sure, there were a couple of big bouncebacks.

Kondracke: You had to have the down in order to bleed inflation out.

Stockman: Yes, you did, but then you had the bounceback of 5 percent for three years, then it dribbled out, and if you take the Reagan-Bush years together, the average growth rate is about the

same as it was before and after. What happened, though, was the deficits didn't have a sting because they got financed by Japan and, as I call it, the East Asian Central Banks who became the ultimate vault for all our debt. No one could see that coming. In other words, the monetary policy after Volcker was driven out became lax. It did support economic growth for a substantial period of time, but it didn't create the inflation that was expected because the debt was being bought by the Japanese and ultimately the Chinese and the Taiwanese and the South Koreans and OPEC [Organization of the Petroleum Exporting Countries], and it wasn't being monetized at that point by the Fed.

Kondracke: You seem to have a very low opinion of Ronald Reagan's intellect and his awareness of what was happening and stuff like that, but there's been a lot of revisionism, Reagan revisionism, his letters and all of that. Has your judgment of Reagan's with-it-ness—

Stockman: Changed?

Kondracke: Changed?

Stockman: No. I mean, he had certain qualities that I never challenged. In other words, he would write a lot of these speeches. I mean, he would have three weeks' worth of speech drafting, all these high-powered speechwriters, and he'd take the draft up and bring it back on a yellow pad, handwritten, perfect, and it was a lot better. He knew how to get the cadence. He knew how to get the flourishes. And there was a philosophical anchor to it. The problem was that any

fact that he didn't like wasn't a fact. [laughs] That's the problem. See, he couldn't be penetrated by facts if they were uncongenial.

Kondracke: It sounds like Jack Kemp had the same problem.

Stockman: He did. He did. Yes, yes.

Kondracke: So let's quickly run through the—

Stockman: Let me take just a three-minute break, because I've just got to check on something.

Kondracke: Good.

[pause]

Kondracke: So what was your relationship with Kemp like post Greider and the rest of the Reagan administration and then as the years went on?

Stockman: Well, it was distant. I mean, it was cordial, but it was distant. I think that's the best way to describe it.

Kondracke: Who did you support for President in '88? He was running against Bush and so on.

Stockman: I think by then I was totally disillusioned. I wrote this book in 1986, a sort of plague on all your houses. I really didn't probably stir myself that much.

Kondracke: So, final question. How do you think Jack Kemp should be remembered in history?

Stockman: I think he should be remembered well. There was a need to get off this Keynesian train that national policy was on, and he made a valiant effort to change the whole policy direction, the whole ideological frame, which I still agree with, but the problem is it got mutilated in the process of policy implementation, and that wasn't Jack's strong suit. Jack was a visionary. Jack was a charismatic leader, but he really wasn't a policy maker. So I think it was an important chapter. It was an opportunity to change the direction of things that failed. And the irony is today we're knee-deep in Keynesian nonsense, as far as I'm concerned, the very thing that Jack thought we had stopped cold in its tracks and had backed away from in July, August 1981, that's the real irony.

Kondracke: At one point in your book you describe the group as "the folly brigade." So is he the leader of the folly brigade?

Stockman: The folly brigade, I was talking more about Irving Kristol and all of those who said, "Don't worry about the deficits. They really don't matter. We'll muddle through." Yes, that's who I was talking about.

Kondracke: Did Jack believe all that?

Stockman: Jack?

Kondracke: Yes.

Stockman: I think so. But, see, that was after the fact, okay? By then the deed was done, everything had come unraveled, defense was out of control, the deficits had gotten massive, domestic welfare state had essentially not been changed. In fact, in the eight years of Reagan, domestic spending was, I think, 22.3 percent of GDP, was less than that during the four years of Carter. So the status quo ante didn't get changed. We had a small interregnum of economic rebound that was the other side of the Volcker disinflation, but other than that, history was left untouched. We drifted back into massive government manipulation of money and debt and Keynesian policy, and now we're knee-deep in it and bankrupt today.

Kondracke: Thank you very much.

[End of interview]