The Interview

BY SUSAN E. DUDLEY

Bill Niskanen’s passing last year was a palpable loss not only to the Cato Institute, where he had served as chairman from 1985 to 2008, and to this magazine, which owes its existence at Cato to his initiative, but to all of us who work in the field of regulatory economics. He was a leading economic thinker who made significant contributions both to regulatory scholarship and to practical public policy.

I spoke with him in September 2010 in a recorded interview conducted as part of the G.W. Regulatory Studies Center’s oral history project focusing on the people, events, and conditions that led to the successful economic deregulation of the 1970s and 1980s. This tribute to Niskanen—one of the most interesting, principled, and thoughtful people I have met—offers highlights from that interview. In it, he talked not only about the ideas that influenced economic deregulation, but also about his own life’s experiences, and he offered advice to young people interested in improving public policy.

Deregulation

The wave of economic deregulation that eliminated entire agencies during the mid-1970s to mid-1980s seems to run counter to the predictions of public choice economics. Despite opposition to deregulation from powerful organized interests (particularly regulated businesses and labor unions), politicians of both major political parties successfully worked to abolish rate, entry, and exit regulation in such industries as trucking, rail, airlines, and energy. I started the interview by asking Niskanen what he thought was most responsible for this success.

He credited scholarship at nonprofit think tanks for laying the foundation for the administrative and legislative efforts by showing that regulation in these areas had tended to benefit the regulated industries, often at the expense of consumers. This scholarship reflected a range of political views, from the center-right to the center-left. He thought that the Brookings Institution did the best early work in the area, though he found their rationale for deregulation—as a way to control inflation—“somewhat misleading.” Nevertheless, he understood that linking regulation to inflation provided cover that protected Brookings scholars from pressure on the left and allowed them to do important research. (Later, the Carter administration’s Council on Wage and Price Stability would use this same rationale to advocate for deregulation.)

The American Enterprise Institute also contributed to the scholarship, and launched Regulation in 1977, edited initially by Antonin Scalia and Murray Weidenbaum. (After AEI revamped its publications in 1989 and stopped publishing Regulation, Bill approached AEI’s Chris DeMuth with the idea to relaunch the journal at Cato; Bill then served as its editor-in-chief from 1990 to 1996.) Other individuals Niskanen identified as contributing significantly to the scholarship of that period included Robert Crandall, Robert Litan, and Clifford Winston of Brookings, and Roger Noll, Marvin Kosters, and Chris DeMuth of AEI. They were all “solid scholars, who had learned to write in English rather than mathematics, which is a great advantage in trying to reach a broader audience.” During this same period, scholarship also led...
to significant reforms in related areas of trade and antitrust, with
the latter being led by lawyers with economic training (including
Scalia and Douglas Ginsburg).

Policy officials (including some of the scholars themselves
who entered government, including professors Stephen Breyer,
Alfred Kahn, Weidenbaum, DeMuth, and Niskanen) turned this
scholarship into action, focusing on a limited range of activities
related to transportation, communications, and electricity.

Niskanen thought one reason the case for deregulation was
successful in those selected areas was that emerging technology
was broadening potential competition, allaying fears that deregula-
tion would lead to cartels and monopoly power. He expressed
disappointment that recent efforts at deregulation have been
“hard going,” citing a 1996 joint Brookings-Cato conference he
organized with Robert Litan examining the regulatory implica-
tions of trends in digital technology and communications. In
retrospect, conference participants showed undue optimism
about what was possible, anticipating that the competition from
new technologies would lead to the abolition of the Federal Com-
munications Commission within two to five years.

Bill also observed that, despite their success in transportation,
communications, and energy, the models of the 1970s and 1980s
“were not sufficient to head off the big increase in regulation of
health, safety, and environment” that began during that period.
“Even the scholars working in the area were unable to make the
same contributions [to reform] they did earlier.”

He attributes this to the fact that valuation of human life and
health is both difficult to analyze and difficult to talk about. He
also recognized that common law solutions to these problems
would not always be satisfactory. Common law requires com-
peting petitioners, and when organizing petitioners is difficult,
governments will step in with administrative law solutions.
Education and Career

Niskanen’s academic training (Harvard A.B. and University of Chicago M.A. and Ph.D.) was in public finance and economics. He said he did not learn much about regulation, trade, and antitrust until he took a job with the Ford Motor Company in 1975, where “there was no way to avoid the issues.”

During his early years after graduate school he focused on defense analysis. He joined the RAND Corporation in 1957 just as the Soviets put the first satellite into orbit. It was a challenging time, when RAND assembled a team of intellectual heavyweights (that included George Danzig, Albert Wohlstetter, Alain Enthoven, and Harry Rowen) with the goal of providing the intellectual horsepower to win the cold war. Niskanen was told he either had to learn Russian or bone up on his math skills. After trying Russian, he went back to math, and ended up developing a 400-equation linear programming model of the Air Force transport system. His programmer for the model was a young William Enthoven, who later won the Nobel economics prize with another RAND colleague, Harry Markowitz.

The election of John F. Kennedy and appointment of Robert McNamara as secretary of defense brought Niskanen and several of his RAND colleagues to Washington. As an economist with the Department of Defense, he worked under Enthoven as one of Secretary McNamara’s “whiz kids” and enjoyed “almost free access” to him. (He later worked for McNamara again at the Ford Motor Company.) At Defense, the staff worked 100-hour weeks and the test of their commitment on Mondays was to describe how bad the cafeteria food had been on Sunday. Those who couldn’t be regarded as slackers.

He took a position as director of the Program Analysis Division at the Institute for Defense Analyses from 1964 to 1972, where, among other things, he developed a course introducing military officers to systems analysis. He said he found it rewarding to teach the conscientious young officers. He then joined the faculty of the University of California, Berkeley in 1972, where, along with Aaron Wildavsky, he helped to establish Berkeley’s Graduate School of Public Policy. He found the students very bright, but (due to their undergraduate experience as student protesters and organizers) not well enough trained to grasp the concepts without introductory material. The teaching was personally rewarding and many of his students have become distinguished scholars, but he found it difficult to strike the right balance between being a conscientious teacher and productive researcher, so he left Berkeley to join the Ford Motor Company as chief economist in 1975.

It was at Ford that he first dealt with regulation, trade, and antitrust policy and began to appreciate that the conventional economic wisdom regarding these policies was not adequate for understanding them. Congress was considering setting corporate average fuel economy (CAFE) standards for the first time. Niskanen thought it was an “absurd idea” and worked hard to convince the Ford administration to oppose them. While the administration was sympathetic to the economic arguments Niskanen and his team presented, the Ford company lobbyist in Washington was working in the opposite direction, crafting a deal in Congress that would temporarily treat some imported foreign cars as domestic in exchange for Ford’s support of the new standards. The American Automobile Manufacturers Association (AAMA), which opposed CAFE, had no lobbyists in Washington at the time, so the Ford lobbyist’s position carried the day in Congress. President Gerald Ford did not veto the bill, the AAMA moved their headquarters to Washington, and now CAFE standards are a perennial source of regulatory controversy. When we spoke, Niskanen was particularly concerned that new CAFE standards are now being developed and implemented by the Environmental Protection Agency under the Clean Air Act following the Supreme Court’s Massachusetts vs. EPA decision. He saw this as a clear example of the difficulty of defeating even a very bad regulation once it is in place.

He also learned a lot about antitrust and trade issues during his years at Ford, but it was the only time he was ever fired from a job. The company had trouble adjusting to changing consumer demand for more fuel-efficient cars and successful competition from the Japanese automakers. As Ford and the other U.S. auto companies began to realize they could no longer dismiss Japanese cars as “shoddy and unattractive alternatives to U.S. vehicles,” Niskanen argued internally against challenging them through trade legislation. Against his advice, Ford Motor filed a trade restraint complaint against the Japanese automakers in 1980. Realizing its free-trade chief economist would not support the petition, Ford chose to fire him. When we spoke, he had no regrets about his time at Ford and revealed no resentment over his dismissal.

Niskanen returned to California to teach at the University of California, Los Angeles briefly before joining the Reagan administration in 1981 as a member of the Council of Economic Advisers (CEA), where he continued his focus on regulation, antitrust, and trade issues. Reagan’s first CEA chairman, Murray Weidenbaum, was an expert in regulatory matters and a “fine fellow to work with,” who trusted Niskanen to lead those issues. Niskanen worked with cabinet members in his issue areas, and co-directed the Task Force on Regulatory Relief with Office of Information and Regulatory Affairs (OIRA) administrator James C. Miller, III.
He had great respect for Reagan, whom he had gotten to know as California governor, and marveled at his principles and instinctive grasp of economic concepts. Niskanen observed that deregulation was the lowest of Reagan’s four domestic priorities (after macroeconomic conditions, taxes, and spending), and did not receive the analytical or political focus the other priorities did.

In general, the Reagan administration was able to maintain a favorable environment for trade except for the “voluntary export restraints” on Japanese automobiles. (The U.S. trade representative had rejected Ford’s petition for trade restraints but, to Niskanen’s dismay, the Reagan administration supported “voluntary” restrictions, which he thought had no basis in either U.S. or Japanese law.) He thought Bill Baxter really turned around the government’s approach to antitrust as the head of the Justice Department’s Antitrust Division. Deregulation was more difficult, however. He noted that, because the newly created OIRA focused on reviewing and analyzing agency regulatory decisions, it was not a focal point for deregulation.

He appreciated the CEA model of recruiting members to take a temporary leave from tenured academic positions, observing that this practice allowed them to be committed to good economics and unwilling to compromise their principles. But his time at the CEA was a learning experience that made him recognize “that there’s an enormous amount of politics in this business and that you have to be prepared to address the implications of a proposal you’re making for a wide range of affected parties.” He served as acting CEA chairman from 1984 to 1985 and tried to refrain from publicly expressing his own opinions about policy matters. Nevertheless, when privately asked by Reagan’s chief of staff, Donald Regan, about a corporate tax reform proposal that had been drafted by the Treasury Department that Regan formerly headed, he responded that it would make Walter Mondale (who had just lost the election to President Reagan) proud; he knew then that he would not be appointed permanent CEA chair.

Niskanen left government service to join the Cato Institute in April 1985, where he remained until his passing in 2011. He told me that his time at Cato had been his most productive for writing and research. In terms of affecting public policy, his four years at the CEA were very influential and more direct (due to his access to cabinet-level decisionmakers and the president), but he thought his over 25 years at Cato have had the greatest overall effect. He called the influence of Cato and other think tanks “reflective access”—less direct than that of government officials, but valuable. He credited Cato president Ed Crane for the “correct decision years ago to address what you think is important [rather than the topic of the day, because] sooner or later the issue will have to come up.” Social Security and health, safety, and environmental regulation are two areas he said will eventually benefit from continued policy scholarship.

Advice
I asked him what advice he would offer young people starting their careers in public policy. He thought a good academic background was important, remarking that “without it you don’t have much to offer. Going from college to being a lobbyist, I think, is a wasted life.” Experience in a think tank environment is very valuable, but it is also worthwhile to spend time in government and industry policy roles. He gained an important perspective from his industry experience, noting that understanding how large firms are organized and how they operate and relate to the rest of the world is not taught in school.

One impressive aspect of Niskanen’s writings was his ability to stay open to different ideas and perspectives, and to treat other people, and their ideas, respectfully. When I asked him about this, he said his mother taught him “not to call people names or dishonor them in any way because you may have to deal with them later on. You can argue with them but don’t challenge their integrity.” He listened to other people’s ideas, “on the premise they might know something I don’t.” As a reflection of his humility, when I asked him which of his writings was most underappreciated, he couldn’t answer, but he immediately said his 1971 book, _Bureaucracy and Representative Government_, was “over-appreciated.” It is the book he is “most known for, but not most proud.” Nevertheless, he did not regret writing it. Noting the book, he advised young people not to try to avoid all risk. “You learn from risk-taking. I was the first to write an analytic book about bureaucracy. Though it is not the analysis in retrospect I would do now, it provoked good comment.” He was proud of his 1988 book, _Reaganomics_.

My final question to him was whether we are now on Hayek’s “road to serfdom,” or Reagan’s “road to a new morning in America.” He smiled and responded that it is important to keep a balanced perspective, even when in the short run things don’t seem promising. He was hopeful that the influence of the Tea Party—an example of spontaneous order that he thought Hayek would have appreciated—could move us toward a “genuinely more limited government” guided by the Constitution.

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Lessons
BY WILLIAM F. HEDERMAN

I had the privilege of being one of Bill Niskanen’s first students at the University of California, Berkeley’s Graduate School of Public Policy. Bill was not only a brilliant scholar, he was also a charismatic teacher who attracted students from across the political spectrum—and at Berkeley, that spectrum was mighty wide.

Bill deeply influenced our class of policy analysts in our formation as professionals. The values I took away from my class work and research with Bill included:

- Be rigorous in your analysis. Use facts; verify them before using them. Apply them carefully.
- Respect others. You may challenge someone’s opinions, assumptions, and/or reasoning, but do not attack the person.
The Keeper of the Holy Grail of Reaganomics

BY JERRY L. JORDAN

Over 30 years ago, I had the very good fortune to land in the highly politicized world of our nation’s capital at a time when a far wiser and more experienced economist, Bill Niskanen, was across the hall from me at President Ronald Reagan’s Council of Economic Advisers. Bill was the model of the consummate economist in the role of adviser to politicians.

To our lasting benefit, President Reagan told us clearly what he expected of us, guidance that I appreciated very much. But in Bill’s case that guidance was not necessary. The president wanted straight economics with no amateur political judgments tossed in. I could readily see how tempting it would be to bend to the political motivations of both insiders and outsiders as well as to offer one’s own naive political views. While I certainly needed to learn that lesson, Bill did not.

The economic argument. From the first issues that confronted us, Bill offered solid economic theory and empirical evidence, both when he supported and when he opposed the countless ideas that surfaced from somewhere in the bureaucracy. There was no coloring of his opinions to accommodate political objectives. While I shared with others the great desire to see the administration succeed, I soon learned from observing Bill—in CEA staff sessions, in working-group meetings, and in cabinet council meetings—that others listened only when they knew that what was being said came from economic analysis with no hidden agenda. In contrast, watching the reaction of listeners to other speakers who clearly mixed political judgments with economic advice made it easy to see why they were tuned out. Bill never was.

The perils of giving voice to good economics are many. One well-known incident early in the new administration illustrates how easy it is to catch political flak even while speaking simple economic truth. The macro agenda of the new administration included an objective of reducing government spending as a share of the economy. The tactic pursued was to “starve the beast,” which was attributed to Milton Friedman’s idea that “the best way to get Congress to cut spending is to take away the revenue.” Professor Friedman, as Bill’s one-time teacher and mentor, had taught that “the true burden of taxation is whatever government spends.” No one doubted that the administration’s objective was to employ “fear of deficits” to negotiate reduced spending. Bill found out that good economics and good politics sometimes don’t mix very well.

Specifically: In an off-hand way, not at all related to issues Bill was regularly involved in, he stated in the presence of journalists the simple economic proposition that “deficits don’t matter.” The outrage over this remark within the Republican side of Congress suggested that a major heresy had been uttered. Bill’s intent had been to dismiss declarations by the political opposition that we couldn’t “afford the tax cuts” because they were causing big deficits and therefore should be reversed. Had Bill phrased the thought, “It’s the spending, stupid,” the remark probably wouldn’t have been reported. The tax cuts were good economics and needed to be defended even if they did not create the political environment that yielded spending cuts. But the political opposition pounced on Bill’s simple statement as a reason for not coming to the table to negotiate spending reduction as part of a bargain to reduce the deficits.

Bill paid the political price of “apologizing” to Republican congressional leaders—for having said something that was true! The incident made me wary of saying anything at all in the presence of journalists, but Bill shrugged it off as the sort of thing one has to expect in the role of advising politicians.

Keep swinging. The irony (and surprise to me) was that the challenges to sound economics that were the most difficult to parry came from the president’s own party. Because of his greater experience in Washington, Bill knew that in every cabinet department there would surface claims of a “special situation” involving trade, agriculture, environment, energy, and all the rest. Our job, he counseled me and the staff, was to be present in every meeting of executive branch leaders, expect to hear mostly political arguments for some proposal, then make sure that the economic argument was at least presented.

In the midst of a severe recession in 1981–82, with a highly critical media, it was hard to stay focused on what we had come to Washington to do and what economic analysis suggested was best for the country. And it was sometimes very discouraging to be on the losing end of so many meetings on so many issues. But Bill was as strong as he was tall. More than once he would listen to my frustrations about the outcome of some decision, puff a bit on his pipe, then observe that in major league baseball the best

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hitters are happy to have a .300 season. That means that seven out of every 10 times that they walk to the plate, they walk back to the dugout without a hit. Then he would press that if we were successful in winning the argument on solid economic grounds only 30 percent of the time, it would be quite an achievement. So, like a major league player, I gradually learned to take my turn at bat with the knowledge that I would probably strike out, but it was better to have had a chance at bat than not to play at all.

Bill kept stepping up to bat for the four years of Reagan’s first term, always handling the outs with grace and moving on to the next issue. More than any other economist in the administration, Niskanen was the keeper of the “Holy Grail” of what was meant by Reaganomics.

Bill and I quickly became good friends. Whenever we were both in Washington, we would usually start the day with 20 minutes of chewing over what was going on in the economy and in public policy. Part of the bond that developed between us was a consequence of the unrelenting infighting within the administration. The infighting sometimes involved the CEA, but Bill and I, most of the time, were able to stand clear and remain in neutral territory.

Of course, Bill understood how bureaucracies work, or failed to work, from both his research and his experience at RAND, the Ford Motor Co., the Office of Management and Budget and, yes, at UCLA and Berkeley. His insights were a staple of our conversations both at the CEA and later. Very few scholars have such firsthand experience in these various sectors of the economy. That fact often shows in the work of academics who have policy ideas for a sense of humor) that Regan blocked Bill’s path to becoming chairman of the CEA. He served as acting chairman for a short time and then joined Cato.

Bill was the most widely read person I have known. That, plus the breadth of his personal experience, made him a delightful conversationalist on almost any topic in almost any group.

Although it was a big loss to the Reagan administration for Bill to depart, it was a huge gain for Cato and for the nation for him to join Cato. His leadership there, working with Ed Crane, built Cato to what it is today: the premier libertarian think tank in the world. Bill’s scholarly work will influence future generations; so also, in equal or greater measure, will the Cato Institute that he helped to build.

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William Poole retired as president and CEO of the Federal Reserve Bank of St. Louis in March 2008. Previously, he was a member of President Ronald Reagan’s Council of Economic Advisers. He is senior fellow at the Cato Institute and Distinguished Scholar in Residence at the University of Delaware.

Breadth of Personal Experience

BY WILLIAM POOLE

I first met Bill Niskanen when I went to the Council of Economic Advisers in mid 1982. Bill had come to the CEA in the spring of 1981 as one of the early appointees of the incoming Reagan administration. He had known Ronald Reagan and worked with him when Reagan was governor of California.

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A wonderful sense of humor lubricated Bill’s interactions with others. Well, most of the time anyway. During the administration’s work that culminated in the Tax Reform Act of 1986, Bill cracked along the way that the Treasury Department’s proposal was one that Walter Mondale would be proud of. I had left the CEA and returned to Brown University by that time, but Bill’s crack so angered treasury secretary Don Regan (who was not renowned for a sense of humor) that Regan blocked Bill’s path to becoming chairman of the CEA. He served as acting chairman for a short time and then joined Cato.

Thanks, Bill

BY BENJAMIN ZYCHER

In the beginning there was the Baltimore Harbor lecture. An introduction to benefit/cost analysis, it was given in the fall of 1972 to a group of bright, eager, young know-it-alls anxious to change the world. We were convinced of our brilliance by virtue of having been accepted into a class of about 30 from a pool of several hundred applicants to the Graduate School of Public Policy at the University of California at Berkeley.

Who remembers precisely what was said that day about discount rates for public projects, measurement issues, the difference between costs and transfers, deadweight losses, or any of the other standard topics? Instead, a far more fundamental memory was forged: That initial lecture was our introduction to real brilliance in the form of Bill Niskanen. Only 39 years old at the time—a fact difficult to believe in retrospect—he had just come to the public policy school after having written Bureaucracy and Representative Government, the pioneering effort to think through the incentives of government agencies under a broad range of alternative conditions and the resulting implications for congressional behavior and budget outcomes.

To say that this book was an intellectual breakthrough is a vast understatement. It represented a major advance in the state of knowledge. How many
people with doctoral degrees can claim even remotely as much?

**Professor Chickenfoot** | Bill stood about 6 feet, 4 inches tall, with a rather large head and ears that stuck out prominently. Add his ever-present pipe, and it was clear from the beginning that elective office in the television age did not loom large as a prospect for his future career. But that would have been true regardless of his appearance: Bill literally was incapable of dishonesty of any kind, of sail-trimming, of go-along-to-get-along compromises, of straddling, of flip-flopping, of saying things because others wanted to hear them. He also was incapable of backstabbing, a quality vanishingly rare in both academia and the Beltway; his word was his bond. Rigorous, careful, honest, dedicated to the pursuit of truth in the defense of liberty: those characteristics are the reason that the late Herbert Stein, the former chairman of the Council of Economic Advisers, once described Bill as “a member of that rare species, the objective insider.”

Bill’s office at the top of several staircases at the public policy school was a virtual clubhouse, with graduate students camped out essentially on a full-time basis asking questions of Bill, running ideas by Bill, arguing with Bill, reviewing work with Bill, learning something new every day from Bill. Among those lessons were the virtues of patience, of collegiality, of caring about the development of young minds, and of absolute honesty in the evaluation of ideas and work, delivered in a manner both uncompromising and kind.

Bill’s lectures were adventures. He loved to draw decision trees as illustrations of the complexity of given policy issues under discussion, some of which literally covered a huge blackboard in our lecture room. Thus did he come to acquire the nickname “Chickenfoot”—“Professor Chickenfoot” at formal functions—a moniker that he pretended to dislike (he once exiled me from his office for less than a minute after I addressed him as Chickenfoot while some associate dean was there smoking cigars and schmoozing with him), but that in fact he knew full well was a term of endearment both toward and from him and us. That nickname fit Bill perfectly.

And speaking of perfect fits: Let us recall the blessed memory of Bill’s Cowardly Lion suit. A genuine three-piece made of the finest corduroy obtainable in Berkeley, Calif., it would have been beautifully appropriate—indeed, an object of admiration—at a vast range of such events as Halloween parties, Purim festivals, campus distinguished lectures, White House press conferences, and speeches on the Fourth of July. But even more majestic was its color: a vision of a bale of straw left for years out in the elements, bleached by the sun, soaked by the rain, struck by lightning, bombarded by endless flocks of birds, and in the end declared a wetland by the Army Corps of Engineers. It absorbed chalk dust by the pound. Not a single speck of lint within a 10-foot radius escaped its gravitational field. It truly was a thing of beauty, worthy of royalty, an absolute inspiration, a source of universal awe, a vast reservoir of material for aspiring comedians. Seeing Bill wearing it every week was like looking forward to a comfortable overstuffed chair at the end of a long day: substantial, dependable, a rock, a lighthouse guiding us toward stability and safety amid the chaos and tear gas of early 1970s Berkeley. Only one man 6 feet, 4 inches, with a large head, with ears sticking out, and smoking a pipe could have worn the Cowardly Lion suit with dignity. That man was Chickenfoot Niskanen.

Toward the end of my two years studying under Bill, I informed him that I had been accepted into the economics doctoral program at the University of California, Los Angeles. He congratulated me—he had, after all, written in a recommendation letter that I was “well-trained” (by him)—and then announced to everyone in the class that the UCLA Economics department had “the highest ratio of the quality of the faculty to the quality of the graduate students of any economics program in the country.”

Thanks, Bill.

A couple of years later, he wrote a recommendation on my behalf to Alan Greenspan (then the chairman of the CEA) when I applied for an appointment as a junior staff economist, telling Greenspan that I was “well-trained” (by him) and that the CEA “could use a good laugh now and then.”

Thanks, Bill.

**Challenging the party line** | Bill left Berkeley’s public policy school for the Ford Motor Company in 1975 to be its chief economist. That fall, he happened to be in Los Angeles on Ford business, and he called me to see if we could get together for a drink. So I drove over to his hotel to see him and we had a great time schmoozing and reminiscing; and then the check came, at which point Bill discovered suddenly that he had with him no cash and no credit card.

Thanks, Bill.

In any event, it is very easy for me to believe that the corporate suits had never been confronted with such a strange creature, unwilling to engage in brown-nosing, willing to suffer fools but not to compromise with them, and—to be blunt—far, far smarter and wiser than they. A few years later he was sent packing, having opposed import quotas on Japanese autos and having failed to “find out the view of his superiors and then supply arguments in support of that view.” “That’s not my style,” Bill said; and let me say that truer words were never spoken.

Bill, in 1970–72 the assistant director for evaluation at the Office of Management and Budget, similarly had failed to find out the views of his superior, then-OMB director George Shultz, when Bill had the temerity to point out, repeatedly, the yawning gap between the rhetoric and reality of the spending and regulatory record of the Nixon administration. So Shultz fired him, obviously preferring people willing to support the party line; his decision and Ford’s were driven by motives essentially identical. I wonder if Shultz ever has asked himself whether it might have been better for the country had he devoted his efforts to fighting the Nixon expansion of spending and regulation—and the imposition of wage and price controls—instead of fighting the truth-telling efforts of one of his assistant directors.

When Bill left Ford, it appeared possible but hardly certain that Ronald Reagan would win the presidency, in which case Bill might be considered for an important appointment, as Reagan,
He was sent packing from Ford, having failed to “find out the view of his superiors and then supply arguments in support of that view.” “That’s not my style,” Bill said, and truer words were never spoken.
as Cato’s chairman? No. Had the regulatory leviathan been tamed? No. Had foreign adventurism been reduced? No. Ad infinitum. And Comrade Chickenfoot could protest all he wanted that he was just a little think-tank cog in the Great Beltway Machine, but the record was clear. Bill learned that in dealings with former students, as in the Beltway, when you’re explaining, you’re losing.

Afterward, in Bill’s office, he asked me whether it really had been necessary to have everyone in the audience stand for the national anthem of the Soviet Union. In the Hayek Auditorium. Of the Cato Institute. As the very first use of the brand-new sound system.

Well, yes.

You’re welcome, Bill.

He and I spoke virtually every week for decades, and I learned something from him every time. I cannot believe that I will not be able to call him no more, and I betray no secret when I say that America is substantially poorer for his passing. May William A. Niskanen rest in peace, and may his memory inspire all of us to strive toward his standard of excellence.

Thanks, Bill.

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A Tough-Minded and Humane Man

BY DAVID R. HENDERSON

Having read Ben Zycher’s wonderful tribute to Bill Niskanen, I realize that I did not know Bill nearly as well as Ben did. I saw Bill about once a year on visits to Washington, when I dropped in on him at the Cato Institute. Thus, my tribute is less to his personality and more to his intellect and accomplishments. As anyone who has read much of his work knows, Bill’s writing reveals not only a first-rate intellect, but also an attractive personality and character. Part of that personality was a keen and somewhat self-deprecating sense of humor.

The main, though not the only, way that I’ll show my respect for Bill is one that he would have appreciated: by reviewing selected parts of his last book, an excellent and eclectic collection of essays entitled Reflections of a Political Economist (Cato, 2008). Anyone who knew Bill knew he could handle criticism, so I won’t hesitate to mention those few important points on which I disagree with him. Bill would have expected no less.

Straight talker | First, though, some personal reminiscences. I first met Bill at a Liberty Fund conference at Ohio University in June 1975. He was about to go to what I—and, I expect, he—thought would be a dream job: chief economist of the Ford Motor Company. I talked to him briefly one-on-one, and when I expressed my awe at his new position, he had an attractive “gee-whiz, pinch-me” attitude rather than a snobbish one. As I later learned, that attitude was rare, particularly in Washington, D.C.

Seven years later, in August 1982, I started work for him and Martin Feldstein at the Council of Economic Advisers. I was the senior economist for health policy at the CEA, working mainly under Marty, but I also covered various issues in regulatory policy and reported to Bill on those. Then in my second year at the CEA, when, partly as a result of Ben leaving the CEA and partly because, with the end of price controls on oil and gasoline, energy became less of a problem—funny how that works—I took on Ben’s energy portfolio. As a result, I reported to Bill more and got to appreciate his mind—and his integrity—up close.

Bill, although a political appointee, was not a “rah-rah, support-the-administration’s-bad-ideas” political appointee. He called them as he saw them. That doesn’t mean that he was always right; but he was almost always right.

One way I saw this integrity—and his sense of humor—early on was when he circulated the written speech he had given at the U.S. Chamber of Commerce in the fall of 1982. At the time, almost everyone thought we were still in a deep recession. I suspect that there was tremendous pressure within the Reagan administration for its top economic advisers to go beyond the data and be positive about the economy’s prospects. But because the recession/recovery data always lag by months, no one knows whether the recovery has begun until months later. Bill thought the economy’s prospects were good; he turned out to be right. But he, like everyone else, didn’t know whether the recession had ended. (It turns out that it ended within a month of his talk.) Here is how Bill led off his speech:

The good news is that I think the recession is over. The bad news is that I thought that three months ago.

Interestingly, pretty much everyone who knew him noticed and commented on Bill’s integrity. Even those on the attack, such as Ronald Brownstein and Nina Easton, commented with a favorable tone about Bill’s outspokenness in their 1982 book, Reagan’s Ruling Class: Portraits of the President’s Top One Hundred Officials. Bill’s outspokenness was so rare for a political insider that they had a special section in their write-up of him entitled, “Niskanen At Large,” containing pithy quotes from him on the issues of the day. The quotes, they wrote, reaffirmed his “reputation as a straight talker.”

Challenging popular ideas | Now to the highlights of his excellent book of essays.

One of the most informative and important of Bill’s essays is his “R&D and Economic Growth: Cautionary Thoughts.” He leads with Bill Clinton’s statement, “American history clearly demonstrates the importance of American leadership in science and technology to the future of our Nation.” Bill then writes:

I wonder to which American history President Clinton was referring. The United States had become the richest nation in the world long before there was significant “American leadership in science and technology.”
He then goes on to criticize “Bacon’s chain,” which is, quoting Bill, the following chain of reasoning:

[Government financing is necessary to provide the adequate level of basic research, which is necessary to provide the scientific foundation for advanced technology, which accounts for a large part of economic growth.

He proceeds to work backwards from the last part of the chain to the first, blowing large analytic and empirical holes in each link of the chain. On the last link, he points out one of the dirtiest "unsecrets" of economists who study growth: even though we say words for what they do not understand."

On the middle link, Bill points to evidence that, in the short term, "most technological innovation is based on other advances in technology, with little contribution from recent advances in basic research." On the first link, he notes that economists have treated this claim as self-evident rather than establishing it empirically. He points out that "private finance was the largest source of support [of basic research] until the 1950s," and that separate studies by two prominent economists, Edwin Mansfield and Zvi Griliches, found that firms' profits depended on their own investment in basic science.

He also added insight to the debate on global warming. In a 1997 article, “Too Much, Too Soon: Is a Global Warming Treaty a Rush to Judgment?” he points out that the case for a global warming treaty depends on the accuracy of seven ideas:

- Continued increases in emissions of greenhouse gases will increase global temperatures.
- Such an increase in temperature will create more costs than benefits.
- Emissions controls are the most efficient means to prevent an increase in temperature.
- It is better to control emissions earlier than later.
- Emissions controls can be effectively monitored and enforced.
- Governments of the treaty countries will approve the necessary control measures.
- Controlling emissions in the rich countries several decades earlier than in the poor countries is desirable.

Bill shows why the case for any one of those seven statements "is surprisingly weak." Although I can't, in a short space, recount his serial reasoning, I'll settle for noting one of his arguments. Concerning the costs and benefits of global warming, he writes that most of the global warming "is expected to be at night, in the winter, and in the high northern latitudes." That means that heating costs would be reduced more than cooling costs would be increased.

Some 14 years after his article was written, the case for each of the seven statements is still quite weak. Interestingly, concerning international cooperation to reduce carbon emissions, the Canadian government withdrew from the Kyoto treaty in December 2011.

In a more narrowly economic piece, “The Economic Burden of Taxation,” he presents a simple model of the U.S. economy, which he then estimates empirically. His shocking finding is that for an additional dollar of government spending to be worthwhile, the dollar must create $2.75 in value. Concludes Bill: “One wonders whether there are any government programs for which the marginal value is that high” (italics his).

**Battling the beast** | One of the book’s essays for which Bill is best known is his 2006 “The Failure to ‘Starve the Beast.’” He criticizes the idea, articulated by economists Milton Friedman and Gary Becker and by politician Ronald Reagan, that the only way to cut the size of government is to reduce its revenues. This idea has driven the policy views of small-government Republicans at the federal level for at least the last quarter of a century.

There are three main problems with this view, notes Bill:

- As an economic theory, it’s implausible.
- The evidence is against it.
- It diverts attention from the tough job of achieving political reforms to rein in government spending.

He presents evidence that, for every percentage point increase in federal government revenue, federal spending as a share of GDP fell by one seventh of a percentage point, the opposite of what the "starve the beast" view would predict. That makes sense. Most people see taxes as the “price” of government. When taxes increase, the amount of government that people demand falls.

While himself a huge contributor to the "public choice" analysis of government, especially of bureaucracy, Bill does not hesitate to highlight the failings of public choice. In a 1998 book review of public choice essays, he points out that one of the key phenomena to explain is why government grew significantly in so many countries in the 20th century. His conclusion:

Public choice does not contribute much to understanding the most important general political event of our lifetime.

Though a microeconomist by training and inclination, Bill had good insights about some major macroeconomic issues. Consider his 2005 article, “Alternative Political and Economic Futures for Europe.” In 2005 the economic situation in Europe looked much calmer than it does today. He wrote, “My own guess is that the European Monetary Union will not survive 10 more years.” Given all the turmoil in the European Union these days, how’s that for a prediction?

In another 2005 piece on Europe, “Advice from a Friendly American,” he makes critical comments on a proposed constitution for Europe:

One sentence [of the proposed constitution] alone, for example, commits the Union to “work for a Europe of sustainable development based on balanced economic growth, with a social market economy aiming at full employment and social progress,” a sentence that includes at least five undefined terms.
That is Bill’s dry, pointed humor at its best.

He was also a perceptive and fair critic of other economists and economic writers. His reviews of Paul Krugman’s 1996 book, Pop Internationalism, and of Robert Kuttner’s 1997 book, Everything for Sale: The Virtues and Limits of Markets, are two cases in point. About Krugman, Bill writes that he has “wisdom beyond his years” (Krugman was only 43 when the book was published), that he is “a creative writer and a brilliant analyst,” and that “he can be as arrogant when he is wrong as when he is right.” That’s a nice summing up of Paul Krugman circa 1996.

In his review of Kuttner’s book, Bill writes:

Robert Kuttner may be the most thoughtful, best informed writer about economics on the American left. He is also profoundly wrong about many issues.

Foreign policy | Niskanen was one of the first to criticize George W. Bush’s case for war with Iraq. He spoke out against it in December 2001. His article, “An Unnecessary War Is an Unjust War,” makes the case tersely.

On the cold war, though, I think Bill was wrong. In a 2005 speech, “A Reflection on the Major Developments in the World, 1951–2000,” he writes:

We should remember and honor those political leaders who initiated or sustained the measures that made it possible for the West to prevail in the Cold War: Truman and Reagan, Churchill and Thatcher, Adenauer and Kohl.

There are two problems with this claim. First, the evidence that the Soviet Union fell due to the efforts of those six political leaders is actually skimpy. Second, I do not think there needed to be a cold war because the Soviet government, while a horrible threat to its own people, was not much of a threat to the United States or even to Western Europe. Perhaps the older Bill Niskanen who saw through the rationales for the Iraq war, if he had taken a fresh look at the cold war, would have agreed with me.

Surprisingly, given his strong understanding of the benefits of free trade, Bill makes a simple error in discussing those benefits. In the earlier-mentioned “Alternative Political and Economic Futures for Europe,” he writes, “[M]any of the poorer nations of the world have little reason to accept the exports and investments by the industrial countries if they cannot sell us their agricultural products.” That’s false. Barriers to imports of their agricultural products do hurt them: there’s no doubt about that. But accepting “our” exports and investments would definitely help them whether or not we have barriers against their products. This is a small error, though, relative to the numerous insights in this book.

Bill’s book is a keeper, especially since it will be one of our main reminders of a tough-minded and humane man. I will miss him.

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Gary Rissmiller
Tucson, Arizona

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