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doi: https://doi.org/10.57709/1397644

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THE BUCK STOPS HERE:

THE PRESIDENT AS MANAGER OF THE U.S. ECONOMY DURING CRISIS

by

CAROL D. WALKER

Under the Direction of Daniel P. Franklin

ABSTRACT

The President performs many roles, but one role of increasing importance over time is that of Chief Manager of the Economy. In the era of the modern presidency, there has been a growing institutionalization of the executive branch's management of the economy. Presidents approach economic management differently depending upon their personalities, management style, and their time within both the crisis and the administration. Three case studies will be used to explore the differences and similarities in presidential actions during times of economic crisis: these case studies will examine the presidencies of Franklin D. Roosevelt, Richard M. Nixon, and William J. Clinton. The different methods and policy actions taken by these presidents are described as change oriented economic policy, electoral gain economic policy, and preemptive economic policy. This research will examine these methods to determine:

1.) How did each president approach economic policy? 2.) Were their approaches similar to a domestic policy or foreign policy? and 3.) What factors influence these approaches?

INDEX WORDS: Executive power, Presidential politics, President, Presidency, Economic policy, Economy, Emergency powers, Economic crisis, Franklin Roosevelt, Richard Nixon, Bill Clinton

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by

Carol D. Walker

A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree of

Doctor of Philosophy

in the College of Arts and Sciences

Georgia State University

2010

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August 2010

ACKNOWLEDGEMENTS

This work would not be possible without the guidance and support of my committee, particularly the efforts of Dr. Daniel Franklin. His helpful insights, patience and support guided me throughout this process, and greatly enhanced this work. Dr. Evans and Dr. Howard provided me with very helpful comments to help guide my research and provided additional insights I had not previously considered. My fellow graduate students, colleagues in the field, and former students also offered their support and motivated me throughout. I also have to thank the efforts of all of the educators who got me to this point.

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Executive Economic Policy Making

During the fall of 2008, the economic news was dominated by stories of millions of Americans losing their homes to foreclosure, their jobs to layoffs, and their life savings to dramatic stock market declines. Banks facing financial pressure tightened lending and many closed for business. In what has been deemed the worst financial crisis since the Great Depression, the government was expected to provide swift policy action to ease the suffering, an expectation that was not prevalent at the start of the Great Depression (Hilsenrath, Ng, and Paletta 2008).

In order to address the growing economic crisis, President George W. Bush instructed his financial team to get to work on a way to address the problem. Media reports and public opinion polls blamed President Bush for a slow response. A plan was created under the direction of Treasury Secretary Henry Paulson. One of the most significant portions of the proposal created the Troubled Asset Relief Program (TARP), which allowed the Department of Treasury to purchase up to $700 billion of troubled assets. Like the Patriot Act's response to terrorism, this law was meant to be a bold response to a very serious economic crisis.

But the measure failed in Congress when it first went to the House of Representatives. Wall Street did not respond well to the vote, posting its largest daily percentage point drop since 1987, forcing the leadership in Congress to reconsider the measure (Wessel 2009). President Bush signed the Emergency Economic Stabilization Act of 2008 in October, with just a few months remaining in his term. This plan allowed the Secretary of Treasury under the authority of the executive unprecedented power to spend government funds in the private financial sector (Schatten and United States 2009).

What was perceived as President Bush's failure to address the economic crisis benefited the party of his political opponents. Part of Barack Obama's electoral success stemmed from his promises to work more aggressively to ease faltering economic conditions. President Obama proposed an additional $825 billion package of spending programs and tax breaks to turn the economy around just a few days after entering office (Baker 2009; Anon. 2009b). Differing from President Bush, President Obama immediately gained Congressional support for his proposals and signed the American Recovery and Reinvestment Act of 2009 into law on February 17.

This is not by any means the first example of the government intervening to ease an economic crisis. Few financial crises in the modern era have been solved without some sort of government intervention. Part of this expectation stems from the Great Depression and actions President Franklin D. Roosevelt took that established the precedent of aggressive government action to improve economic conditions (Hilsenrath, Ng, and Paletta 2008). While we witness more government intervention in an economic crisis in the modern era, we do not understand the role our leaders play in addressing the economic dangers of the world.

How in general do presidents address an economic crisis? Response to a crisis can define an entire presidency. Focus or lack of attention to an economic crisis and the course of action to embark upon can provide great opportunity or doom a president to failure (Dallek 1996). What options were available to President Obama in dealing with the financial crisis confronting his administration? There are many options for presidents seeking to address an economic crisis. One way to determine the powers available to presidents in confronting an economic crisis is to understand the abilities a president has when addressing other policy issues within other policy frameworks.

Wildvasky's Two Presidencies Thesis

One way of thinking about presidential power is to consider the primary policy frameworks where presidents exert their influence. The presidency is a unique institution in which the person in power has plenty of opportunities to shape both domestic and foreign policies. The president must be concerned with both foreign and domestic policies. Most prominent among the theories, Aaron Wildavasky developed the concept of the two presidencies regarding the foreign policy capabilities of the executive branch. The two presidencies thesis suggests that the United States has a presidency in terms of domestic affairs and another for foreign affairs and defense policies. Wildavasky found that presidents have dominated foreign policy since the end of World War II, but have had relatively little success in controlling domestic policy (Wildavsky 1975).

This research seeks to challenge Wildavasky's two presidencies thesis. Presidential actions are not that black and white; they do not always exercise different actions in regards to foreign policy and domestic policy. Economic policy, considered a domestic policy by Wildavsky, is unique because there are both foreign and domestic policy implications of the economy in today's globalized world.

When it comes to differences in the exercise of presidential power, it is not the type of policy that is important; instead, it is a fact there is a crisis situation. Presidential powers allow the executive the ability to confront a crisis facing the nation and these powers have only been enhanced since the Founding.

A difference is noted in presidential action on foreign policy because there tends to be more frequent foreign policy crises for a president to address with swift action than in domestic policy. Presidents have an executive bureaucracy, cabinet, and executive powers to help them address a crisis situation. Once an economic problem has reached the crisis stage, however, it too will require swift action for which the president is best equipped to provide. Additionally, in our federal system of government, states and local governments also play a role in managing a domestic crisis. However, many economic issues have a national or international element and require federal attention. In fact, the president may be able to exact more of a role in a financial crisis.

Presidents are capable of a broad exercise of executive power to address an economic crisis in the same manner they have broad executive powers to address a foreign policy crisis. When the nation is in crisis, it looks to the president for solutions more so than any other institution of government. When people think of the executive branch, they think of one person rather than a body of people like Congress. The executive is a more nimble institution than the legislative branch or judicial branch; therefore it can have the flexibility to take dramatic actions to address a crisis.

Presidential Policy Making

Economic policy making is one area of policy making not given as much attention by political scientists as other areas of policy making. A large component of economic policy making at the federal level involves the creation of the federal budget. But much of economic policy making involves very complex issues that do not occur at any particular time. There has been the tendency to devote much more attention to the president's role in foreign policy. Pertaining to economic policy, much research is devoted to the budgetary process (Fenno 1966; Franklin 1993; Gilmour 1990; LeLoup 1980; Tomkin 1998; Anon. 1984; Wildavsky 1984); however most of that research focuses on the legislative role in the budgeting process rather than the executive's role. Since the 1930s, however, there has been much more involvement by the federal government in a broader economic policy making, which has received little attention.

Attention devoted to other policy making areas has provided a greater understanding of the elements of making policy and implementing it. The role of the president in the making of foreign policy is frequently examined. The prevalent view that Presidents possess greater power in this area and that it is often an area wrought with conflict makes it a very attractive field to study.

Many elements go into the making of foreign policy and presidents exert themselves in the foreign policy arena in many different ways (Ripley and Franklin 1991). Therefore, it is sometimes hard to clarify and examine all of the elements that comprise a presidential foreign policy. However, many different studies have expanded our understanding of how presidents exert influence and shape a foreign policy agenda. Yet these types of studies are missing within the realm of economic policy.

Wildavsky suggests that presidents would prefer to concentrate their attentions on foreign policy because he has more legal and traditional resources in this area. The president enjoys more freedom from domestic actors, such as Congress, when it comes to dealing with foreign policy (Wildavsky 1975). Wildavsky's framework remains a useful starting point for a systematic analysis of the policy activities of presidents in office (Sigelman 1979; Shull and LeLoup 1981; Fleisher and Jon R. Bond 1988).

After World War II, the United States became a world power, which made foreign policy much more of an issue for presidents to focus on and impact (Cronin 1980; Sundquist 1981). This expanding executive policy making role led to increased scholarly attention. However, a similar expansion of the presidential role in economic policy occurred over this same period but has not garnered as much attention.

A president generally has difficultly with domestic policy because of the necessity of gaining congressional support. In foreign affairs, a president can generally get support for a viable policy. Presidents have more resources in foreign policy, such as an extensive network of foreign policy advisors and a series of other advisors that Congress does not have. Foreign policy is also friendlier to term limited executives who do not have the ability to serve as long as some prominent members in Congress. Domestic policy also takes longer to initiate noticeable changes. Foreign policies, by contrast, are much more dynamic and changes can usually be seen during a president's term (Wildavsky 1975; Wildavsky 1998).

Economic policy can provide the president with some of the same resource advantages noted in foreign policy. There are many economic indicators for economic policy experts to track. When an economic crisis presents itself, immediate action is needed. The president has the Secretary of Treasury, closer connections to the Federal Reserve Bank than Congress, and a team of economic advisors. Economic policies can take longer to enact but often actions taken to address a crisis can produce results in the short term or at least the perception that results will soon follow.

Hence, a president's control of economic policy, particularly in times of economic crisis, can be likened to a president's abilities in the realm of foreign policy. Economic policy ensures the president will have the ability to successfully navigate domestic policy. Times of economic crisis are difficult for Congress to address and it has ceded some of its authority over economic policy to the executive. It is difficult for Congress to quickly enact a cohesive legislative policy to tackle a major economic issue. However, since economic policy occurs over the long term, it could be problematic if Congress has ceded too much power to a president if an institutionalization of economic policy making did not occur in conjunction.

Getting an Economic Crisis on the Agenda

Presidents, like everyone else, have a limited number of hours in the day to achieve their goals; therefore, presidents must decide where they need to devote their limited resources and time to achieve these goals. A president may be powerful, but he does not have the power to completely control the external environment. For instance, the events that the media chooses to focus on can be contributing factors to the development of the president's foreign policy agenda (Wood and Peake 1998). Often it is the media who dictates what constitutes an economic crisis.

There are only certain elements of an agenda a president can control. Analyzing presidential speeches and news conferences from 1953-1993, Andrade and Young found that the president's foreign policy agenda is determined by many factors outside of his control. A president's ability to shape the foreign policy agenda is dependent upon his approval ratings, his influence in Congress, and international events beyond presidential control that require attention (Andrade and Young 1996). Presumably, these same factors would also influence the economic policy agenda.

Presidential influence on the media and Congress is strongly dependent on the time frame of the analysis (Edwards and Wood 1999). With regard to the economy, it seems a president is often reactive to an issue already in play, though it is an issue that has important implications for that president. However, it also seems the president would have the ability to play a proactive role in economic policy assuming he identifies with an issue and can shape the agenda properly. A president must be free of outside constraints, such as fear of negative electoral consequences or other branches of government impeding upon a policy in order to play a proactive role in creating economic policy and preempt an expanding crisis issue.

Economic conditions can shape the agenda. The economy does have many unknowns, making it very difficult for decision makers to handle. Economic conditions are personal and contain human elements, such as consumer confidence measures. It is often hard to put economic conditions in a broad perspective for all citizens because an economic crisis can impact individuals differently. There is a tendency to treat the latest economic crisis as one of the worst because it is what people are experiencing now and most people do not have experience living in extremely poor economic conditions or times (Neustadt 1986). Economic conditions are also cyclical, but people expect real time results, especially if they are struggling to pay bills, keep their house, or put food on the table. The economic cycle though dictates that the economy cannot always be on the upswing.

Presidents can prioritize issues. On less salient issues that are not receiving much attention, a President can make the issue a priority, which forces the media and Congress to devote attention to the issue (Peake 2001). But when the economy is suffering, the American public will demand it be an issue a President pays attention to. Presidents will be most effective in shaping the economic policy agenda to an economic crisis when they make a preemptive economic policy decision and take action before it reaches the point of public concern. Skilled economic advisers whom the president can trust are key facilitators in an executive response to an economic crisis before it reaches the threshold of public concern.

The American public wants a presidential agenda that is responsive to their demands. The demands of the public are important when it comes to the policy agenda. The effects of pocket book and sociotropic voting can become an important economic issue to a President when the American economy is suffering or there is an impending disaster (Mutz and Mondak 1997). When a president has electoral concerns and the economy is a primary concern to the public, the president will devote more attention to economic policy.

The public's knowledge of foreign policy is generally limited to what they see via the media. Thus, a president's foreign policy agenda must respond to highly salient international events and the events that are covered by the media (Edwards and Wood 1999; Wood and Peake 1998). However, a president's economic policy must respond to the demands of the public as well as key economic policy advisers. The public will be more informed on how they feel the economy is doing than their opinion on most foreign policy issues but not about the minute and intricate details of an economic policy.

While many studies find media attention and public opinion to be important factors in shaping a presidential agenda, these constraints are influenced by the electoral cycle. When elections near, presidents must choose their activities carefully and act strategically with the next election in mind (Brace and Hinckley 1993). If the economy is performing poorly, presidents generally focus their attention on the economy to show that they are attempting to improve the situation and to help themselves getting reelected (Pollins and Schweller 1999).

Herbert Hoover, Gerald Ford, Jimmy Carter, and George H.W. Bush all lost their jobs because of poor economic conditions. Presidential candidates often promise nothing short of economic miracles during their campaigns, as if deep seated economic problems can be cured overnight simply by changing the person who occupies the White House. Yet, Presidents who are punished for a poor economy are also rewarded for strong conditions (Diller and Patterson 1997). Many scholars have suggested a link between the business cycle and the electoral cycle (Schultz 1995; Weatherford 1987). There is an electoral business cycle at play which influences presidential action. Economic conditions as an election nears influence a president's decision to enact and implement a specific economic policy as a means of pleasing the electorate.

Roles of the President in Relation to the Economy

It is certain that the responsibilities of the presidency and the expectations placed on the executive branch are enormous. The job of the president is certainly a momentous one and there is not quite anything like the presidency of the United States. Great responsibilities and many obligations accompany the office of the presidency, but many of its office holders would also agree the burden is glorious. The roles the president must fulfill while in office are partially a result of Constitutional requirements and partially a result of the evolution of the country. The federal government now exercises more power with discretion over many more areas of society than it did in the days of the Founders.

The demands on a president are extensive and the roles a president must perform are varied. There are a total of seven identified roles that a president must play as a part of his or her duties. These roles have been defined as follows: Chief of State, Chief Executive, Chief Diplomat, Commander-in-Chief, Chief Legislator, Chief of their Political Party, and Manager of the Economy. While we do not always associate these roles with economic policy, all of the different roles of the president do have an economic policy component. The following section will discuss these different roles with an emphasis on the roles of primary importance to the management of the economy. However, as the discussion will show, there is a link for many of these roles to the management of the economy (Bunch 2000; Ginsberg 2001).

As the Chief of State, the President is the symbolic leader of the nation. This role involves the ceremonial duties presidents perform. Examples of these duties include formal dinners, medal ceremonies, and throwing out the first pitch at a baseball game. In this role, the president is the host for the nation and a representative for the nation at ceremonies and special events (Bunch 2000; Ginsberg 2001). The symbolic head of state can be very important to the economy since there is a large amount of psychology behind the economy, as evidenced by consumer confidence measures. Presidents can make the nation seem more attractive to foreign investors.

The President also serves as the Chief Executive of the United States. This role is much like the role of a Chief Executive in any company, because it is the duty of the President to run our government. Presidents must ensure that laws are enforced, appoint officials to various positions, issue Executive Orders, and coordinate the efforts of over 150 departments and agencies. There are 14 executive departments the president directly oversees and the head of these departments make up the Cabinet. These Cabinet members help the president faithfully enforce the laws of the nation and execute implementation of laws (McCloskey 1964; Ginsberg 2001; Bunch 2000). Many of these departments deal directly with matters important to economic policy. Within the Cabinet, the Secretary of the Treasury and the Treasury Department play an important role in monitoring economic conditions, devising, and implementing economic policies.

In his role as Chief Diplomat, the president conducts foreign policy by directing the actions of ambassadors and signing treaties and trade agreements with the leaders of foreign nations (Bunch 2000; Ginsberg 2001). Trade agreements with foreign nations are important components of economic policy and can impact economic performance. As globalization has increased, the United States has entered into many more trade agreements in recent decades. A prime example of these trade agreements is the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico. This agreement is a substantial departure from the days of the Founders when the country's trading partners were mainly major European nations. The president can also present a strong economy to the rest of the world, which has encouraged an increase in foreign investments in United States bonds, companies and corporations in recent decades.

Furthermore, one of the most prominent roles a president serves is his role as Commander-in-Chief. The president is the head of the armed forces of the United

States and must defend the nation during times of war and keep the military strong during times of peace (Bunch 2000; Ginsberg 2001). Defense spending takes a large portion of the United States' annual budget, which impacts the economy. Presidents generally have the most latitude in their use of power as Commander-in-Chief. Presidents have tried to acquire the same type of powers when it comes to economic policy by suggesting economic collapse could have the same impact on the country as a military crisis would.

While Congress is constitutionally charged with creating the laws, the president also plays a role in creating legislation as Chief Legislator. The president can use his annual State of the Union address before a joint session of Congress to suggest what he would like to accomplish in the next year and to update Congress on the state of foreign and domestic affairs. Additionally, before any piece of legislation can become law, a president must sign the bill creating the law (Bunch 2000). Laws are important for the operation of the United States economy and times of economic crisis can spur the creation of legislation to address the crisis.

In his role as the Chief of his Political Party, the president serves as the figurehead for his party. In this role, the president represents the views of his party as a whole and helps party members get elected to office. The overall goal for the president and his political party is to be seen in a positive light by the public (Bunch 2000; Ginsberg 2001). Since many voters make their selection based on retrospective or prospective economic conditions, the president needs to ensure voters that the economy is performing well. A good economy is important as an election draws near, so that the party in power does not pay the electoral consequences of a poor economy as voters head to the polls.

Another role the president plays is that of Manager of the Economy. The president manages all aspects of the economy including unemployment, inflation, taxation, business indicators, and the general welfare of the nation. The president does not directly control the economy, but he will still get the credit if the economy grows well and will receive the blame if it does not. Many presidents have learned during their reelection campaigns that challengers can successfully attack their campaigns based on the economy's poor performance.

Constitutional, Legal, and Institutional Guidelines for Presidential Power

The Founders of the United States' government extensively debated the pros and cons of Article II of the Constitution, which outlines the powers of the executive branch. While too much power was a prominent concern, some of the Founders believed that the executive branch lacked power and would succumb to the direction of Congress.[1] The president's role in governing the nation was more closely correlated with the role of the governor of New York instead of the role of the King of England, which was the intention of the Founders (Alexander Hamilton, Madison, and Jay 2009).[2]

Alexander Hamilton viewed the role of presidents as being bound to support the true interests of the electorate, even if it differed from the voters' desires. This idea presented a problem, because presidents must enact policies for voters that are ill informed about the policy. Presidents also have access to classified information that

[1] Federalist 51
[2] Federalist 69

voters do not have and cannot access when making their policy decisions (Canes-Wrone, Herron, and Shotts 2001). Yet under this line of thinking, the president should take an action on the economy experts deem beneficial even if the citizenry does not support it.

Some would argue that an imperial presidency never envisioned by the Founders has evolved. Excessive power of an American president is of concern in a system that prides itself on a balance of power (Schlesinger 1989). Recent debates suggest this is especially true when it comes to the power of the executive branch and the economy.

The Constitution's guidelines for presidential power are not all-inclusive. Presidential power has changed greatly since the days of the Founders and has undergone development over time. Successful presidents must adapt to the times and the situations that confront them. All presidents have the same prerogative power, but it is the practical organization of the executive institution and the responsibilities of the executive branch that have changed over time (Skowronek 1993).

Per the Constitution, the president must make certain that the laws are faithfully executed. This concept has allowed presidents to delve into almost any part of the administration of laws (Pfiffner 1991). Guidelines are in place to limit the president, but the role of the president has changed as the country changed. The presidency is an institution with many traditions, but the individual who holds the office can still have a great deal of influence on the office. This flexibility allowed for the evolution of executive power and helped define the roles the executive would play while in office.

There are many obligations placed on the president and they require more attention than one man can provide. Article II, Section 2 of the Constitution allows the

President to seek "the Opinion, in writing, of the principal Officer in each of the executive Departments, upon any Subject relating to the Duties of their respective Offices" (McCloskey 1964). Thus, the President can rely on the expertise of other individuals.

President George Washington created the executive Cabinet, which is made up of the most senior officers of the executive branch. Members of the Cabinet are appointed by the president with the advice and consent of the Senate according to Constitutional guidelines and serve at the will of the President. The assistance of the Cabinet can help presidents achieve ambitious agendas and meet the demands of the various roles of a president.

The role the Cabinet plays in the management of the economy depends on how the president defines his role and the role of the Cabinet in regards to the economy. The responsibility of presidents in these roles have changed and expanded over time. This expansion is the result of a transformation of the office as presidents assume additional responsibilities to address special circumstances and as other branches of the government cede powers to the presidency (Ginsberg 2001; Pika 2008).

The Constitution intended for Congress to be the branch of government most concerned with economic affairs. Article I, Section 8 establishes many Congressional duties and powers relating to the economy. However, the Constitution also leaves the President with powers and responsibilities over the economy, though clearly not the same level of powers as those of Congress. Management of the economy has become more complex in the twentieth century and Congress ceded some of its domain over management of the economy to the President. Furthermore, the American people now expect the president to manage the economy as the leader of the federal government. The American people are not content with letting the American economy flounder before their eyes and expect the President to take the actions necessary to prevent a failing economy (Diller and Patterson 1997).

While the Constitution provides a basis for the exercise of presidential power, much has changed since the Constitution was created. The American state has transformed greatly since the nation was founded and the institutions of government, including the presidency, have been transformed as well. In particular, the role of the president has expanded in recent years concomitant with the expansion of the administrative state. This expansion has given presidents more involvement in the management of an organization (Pfiffner 1991). With this evolution, the presidents' powers in regards to the economy have greatly changed. Increasing responsibilities led to an increase in the size of the federal bureaucracy to help meet the growing demands on the federal government.

The President and the Bureaucracy

The president relies on an extensive network of bureaucratic agencies to address the difficulties and concerns facing the nation. Presidents utilize their role as Chief Administrator to oversee these agencies and ensure they are meeting the demands of the American people. Presidents have many powers at their disposal to achieve their goals while in office, including appointments, executive orders, and other executive actions that have evolved with the presidency.

Many bureaucratic agencies have been created in order to meet the changing expectations on the federal government. Agencies can be of particular importance to Presidents and have expanded over the years to help serve the growing needs of the President(Gene M. Lyons 1971). Really anything a President accomplishes during his term is the result of the staff he leads (Rose 1977). In the realm of economic policy, presidents have the Council of Economic Advisers, the Office of Management and Budget, the Treasury Department, and the Federal Reserve Bank to assist them in creating sound economic policies (Pfiffner 1991).

One duty of the President is to manage the various entities that fall under the heading of the executive branch. The President must manage the White House, the Cabinet, political appointments, and career services. The organization of the executive branch answers to the president; therefore, when there is a national crisis, the president has a full range of bureaucratic agencies at his service. There has also been a movement by presidents in recent decades to assume more control over the government because of the relative decline of political parties. Presidents now rely on political parties less in election campaigns. The people also place certain expectations on the president and what they should be doing with the federal government as Chief Executive (Pfiffner 1991).

Economic advisers are key for the President in creating sound economic policies. According to the perspective of two White House insiders, the two primary questions for economic advisers to ponder are:

1.) “Is there anything on the horizon that might cause the economy to grow significantly slower than average?”, and
2.) “If there is such a threat on the horizon, is there something that can or should be done?”

A President capable of appointing advisers skilled at answering these questions and developing plans should be proactive enough to prevent serious economic crises or have the ability to address them when they do occur.

However, convincing key players and the public to be proactive on the economy can be difficult. Making sound economic policy is difficult. The tough part of economic policy is making sure the good times aren’t too excessive and ensuring policies will not make things worse when times are bad (Lindsey 2008). The President needs the bureaucracy for success; however, the bureaucracy can be seen as a burden by presidents (Pfiffner 1991).

The Council of Economic Advisers helps the president formulate the nation’s economic policy (Bunch 2000). The American public has come to expect presidents since the 1930s to take action and have the power to control the business cycle (Pika 2008). Good policies and the passage of time are the keys to a strong economy. Once economic momentum turns, it can be difficult to adjust. Regardless of the situations, presidents are held accountable for ensuring and maintaining economic growth during their terms (Lindsey 2008).

Many elements of the bureaucratic structure relating to economic policy have been created in the last century, such as the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and the Securities and Exchange Commission (SEC). Presidents favor placing agencies within executive departments and subordinating them to hierarchical authority. Presidents want agencies to have discretion, flexibility and the capacity to take direction, but they want authority in the hands of their own political appointees (Moe 1989).

Economic policy is complex, ever changing and there are many experts who handle economic issues within the civil service. Part of the bureaucracy's job is to provide the economic policy technical expertise necessary to make difficult decisions. However, the growth of the bureaucracy and actions of the federal government in general has caused many debates over the Constitutionality of these actions. Many individuals with conservative ideologies have complained that the President and the bureaucracy do too much to influence economic policy. Despite these complaints, it is clear the bureaucracy is crucial in the exercise of presidential power and in creating executive economic policy.

The Exercise of Presidential Power

The American people entrust the president with the ultimate burden of essentially running the nation but he doesn't have the power or control to run the entire nation. Additionally, the American people are not always clear on how they want the nation run, what goals should be achieved, or how those goals should be accomplished. The job of the president requires a lot of decision making, often under very pressing constraints and each decision can have dire consequences. The basis for the powers of the executive branch stem from the Constitution of the United States, guidelines left by the Founders of the country through their debates over executive power and institutional changes over time. The individual in office does matter much to the presidency, but the institution of the presidency is bigger than the person in office.

One of the most difficult times for leaders of any nation is to lead a nation through a time of crisis. No nation is immune from crisis and every nation faces a variety of challenges daily. The economy is cyclical leaving many presidents with the duty of confronting, limiting, or preventing an economic crisis from spreading to greater levels. The accepted view is that an economic crisis occurs when disruptions in financial markets rise to the level that disrupts and limits the flow of credit to businesses and households. In turn, the real economy of goods and services suffers. An economic crisis occurs when a nation experiences a sudden downturn in economic conditions, leading to a collapse, recession, or depression. Crises are created by a falling gross domestic product (GDP), declining liquidity, and inflation or deflation (Jickling 2008).

The most important aspect of these challenges, particularly the challenges of an economic crisis, is how they are confronted. This approach depends on a president's abilities and how they exercise their power. The president will devote attention to the economy when it is in crisis and withhold attention from other discretionary issues (Cohen 1993).

When seeking to address a crisis, traditionally it is the president who draws upon additional executive powers to lead the nation out. Crises demand leadership and the executive branch is simply more capable of providing leadership and a clear vision as opposed to the legislative branch. During an economic crisis, Presidents must be capable of enacting strong policies, showing concern to the plight of the American people, and confidence the economic conditions will improve (Wood 2004).

Still, all leaders have constraints on their abilities to address a crisis. There are still limits to executive power even when it is more liberally relied upon during a time of crisis. There is a variation in how leaders perceive the constraints upon them, and in how they view and use their power while in office. There is a gap between de jure and de facto domestic constraints on the executive in the American political system. However, not every president perceives their constraints in the same manner. One of the most important sources for variation in perception of domestic constraints is leadership style, determined by a president's personal characteristics (Keller 2005).

Leadership style involves a president's ability to relate to others, how he processes information, and how he makes decisions. Cognitive style, self-confidence in one's abilities, and ability to manage political conflict all play a key role in a president's leadership style (George 1969). The decision-making and policy implementation process is strongly shaped by an individual president's personal characteristics. Therefore, it is a president's individual attributes that guide policy outcomes (Barber 1985; Fred 1975; George and George 1998; Greenstein 2000; Kowert 1996; Lyons 1997; Nelson 2000; Pfiffner 2005; Pika 2008; Renshon 1994; Renshon 1998; Rubenzer and Faschingbauer

2004). The institution and the individual in office both play a role in presidential activity; therefore, it is necessary to consider contextual factors when considering how an individual president operates within an institution (Hager and Sullivan 1994).

Leadership and the operation of the executive branch are not conducted by just one man. Strong leaders know their strengths and weaknesses and how to play upon those (George and George 1998). Perhaps most importantly, personal attributes guide a president's leadership in his interactions with others. These attributes also guide who a president chooses to rely upon in an advisory capacity (Link and Glad 1994). Personal leadership guides the decision to respond to an economic crisis and the type of action that will be taken as a response. These individual characteristics also guide a president's ability to use more flexible executive powers which is often the key to an executive's success.

One of the most important means in which a president exerts power and influence comes through their power to persuade. Persuasion powers depend upon the individual in office. The Constitution created a system of shared powers, so a President cannot operate solely within their own sphere of influence. Presidents must compete with and seek power from Congress, the public, parties, foreign government, and governmental agencies. There are individuals within the bureaucracy and executive agencies that maintain a lot of power and can present barriers for presidential agendas. It is this division of power and competition that requires a president has the power to persuade so that he can convince others that his goals or desires are best for the sake of the nation. The president must decide which issue to focus attention on, but certainly any national crisis, particularly an economic crisis, would command the full attention of the president .

Developments in the modern presidency led to the theory of the rhetorical presidency. At one time, the institution of the presidency obtained its powers from what was granted to it by the Constitution. However, presidents are now seen as obtaining their power from the public. It is how the president communicates with the public that has become of the greatest importance (Tulis 1987; Neustadt 1980). The President is the source of guidance on the direction of national economic conditions during a time of economic crisis. Optimistic rhetoric during an economic crisis can help increase the optimism of the American public on the state of the economy (Wood 2004).

In today's information age, presidents have many more opportunities to use their powers of persuasion to their benefit. One such approach involves a rather "Madison-Avenue" type approach, whereby presidents can take their desires to the public. By gaining support in the court of public opinion, they essentially force other governmental and policy-making actors to join their cause (Kernell 2007). The information age also provides citizens with more outlets for information. Consequently, when the economy is performing poorly, one simply cannot help escaping that news.

Politicians act strategically and presidents are no different in their desire to achieve strategic goals. Presidents are motivated by reelection, public opinion polls, the support of their party, and historical legacy. All of this is going to be impacted by his perceived success as leader of the government (Moe 1985). Presidents must be effective managers in order to be effective political leaders (Pfiffner 1991). In order to accomplish this, presidents need a well performing economy or a strong perception they have a good plan to get the economy there.

Power is important to think of when it comes to the capabilities of presidents as powerful presidents are seen as being more able to accomplish their goals, and set their own agenda. Presidential power refers to "the resources, formal and informal, that presidents in a given period have at their disposal to get things done." Authority, on the other hand, "reaches to the expectations that surround the exercise of power at a particular moment, to perceptions of what is appropriate for a given president to do." A successful president will have been able to carry out his vision over the challenges of others who would preempt his authority (Skowronek 1993). Presidents must be sure that they are able to exert their powers and to do so they must have the power to persuade (Neustadt 1990).

As President Harry Truman noted, "The President may have a great many powers given to him in the Constitution and may have certain power under certain laws which are given to him by the Congress of the United States; but the principal power that a President has is to bring people in and try to persuade them to do what they ought to do without persuasion. That's what the powers of the President amount to" (Lammers 2000). Of all the powers a president possesses, the power of persuasion is extremely important when it comes to dealing with the management of the economy and exercising executive power. The president needs to be able to persuade the public the economy is strong and actions can be taken to prevent major sustained economic downturns. In order to do so, a president must rely on the powers of the presidency and draw upon his own personal attributes to successfully enact policy.

Presidential Management of the Economy

While economic policy is essential, expectations exceed a Presidents' ability to manage the economy. Four factors serve to limit a president's economic power. First, the separation of power means there are other actors involved in the process. Second, economics is a complex and theoretical science. There are many different approaches to a problem and no guaranteed outcomes when policies are enacted. Third, economic statistics do not always reflect reality. Finally, Presidents cannot control state, local, or international governments (Diller and Patterson 1997). Yet, the American public still expects the President to be capable of fixing any economic crisis. Many presidents have tried different approaches, with different goals, all with varying levels of success.

Presidents respond to crises in the economy. Many presidents fought the War on Poverty but there is no clear answer as to what a victory might entail (Etzioni 1970). Still, economic policy is crucial for a president. A president needs a successful economic policy to maintain their power and prestige (Neustadt 1980; Rose and Suleiman 1980). The public certainly holds the president responsible for economic conditions despite any philosophical debates over what the executive's role in economic management should be or what his actual powers are. In fact, the public holds the president responsible for economic conditions when nothing has been done. Presidents can be rewarded or punished by the electorate for economic events before they happen (MacKuen, Erikson, and Stimson 1992).

However, the President does not necessarily have the same resources at hand as leaders of other nations. For example, the federal government has refrained from taxing large portions of income unlike some other industrialized nations (Rose 1985); therefore, resources from the tax base are lower in the United States. The President must deal effectively with Congress in order to change the governments' taxing and spending powers.

It is now an expectation that the President manages the economy and the public has come to hold the President responsible for economic prosperity or economic downturns more so than other branches of government. This concept is now entrenched in law since the passage of the Budget Act of 1921 and the Employment Acts of 1946 and 1978. Therefore, if the nation is facing an economic crisis, the nation is going to expect swift and successful action by the President. Presidents have no choice but to pay close attention to economic conditions, because success of their other policy goals, as well as their time in office, can hinge on the success of the economy. One way a President can show his attention to economic conditions is by the speeches he makes and the administrative responsibilities of the management of the government (Hager and Sullivan 1994). However, what the President is often engaged in when it comes to his role as Chief of the Economy is unrealistic expectations and limited powers to get the job done.

While every President has been concerned about the economy to a certain extent, close supervision of the economy is a more recent development. Our acknowledgement of the role the President plays in the economy is rather new, but certainly the economy has been important to other presidents and created situations for them to address. How presidents choose to address to or not to address an economic crisis can influence what subsequent presidents will do.

The country changed after the presidency of Franklin D. Roosevelt, giving rise to the debate over the proper power and roles of the federal government. The size and scope of the federal government has changed dramatically as society, technology, and the global situation have changed over time (Lowi 1979). There are situations in times of crisis when the nation leans on its leadership to see it through. When this situation leads to potential abuses, the separation of powers provisions in the Constitution exists so that the executive, legislative, and judicial can check the powers of each other. These changes in the scope of the federal government fuel the debate over the Constitutional design of the American system of government and its development to the current structure of government.

Since the extensive use of executive power by President Franklin D. Roosevelt (1933-1945), there have been many questions over whether the power of the current executive branch is within the bounds of the Constitution or if the administrative state today is unnecessary. Modern presidents often use whatever means available to handle national emergencies in the modern era.

Economic policy making changed after the presidency of Franklin D. Roosevelt. The world became a more global society and the United States could not operate in the isolationist perspective anymore. The presidency also took on a more active role towards economic policy. The modern presidency emerged, requiring an increased focus on economic policy, particularly evidenced by presidential rhetoric (Wood 2004). While economic problems confronted Presidents in the past, modern Presidents are expected to take a more active stance towards economic policy. The current trend is to use fiscal policy to promote economic prosperity by adjusting taxes, adjusting government spending, or by attempting to balance the budget (Ragsdale 1998).

The President's role as Manager of the Economy started with Franklin Roosevelt's presidency in the 1930s and 1940s. Frequent changes to economic conditions have been the norm since President Lyndon Johnson in the 1960s. The post-war boom and leveling-off changed the structure, size, and scope of the American economy. The American economy operated more in a global sense than ever before and leaders had to carefully consider new international economic agreements. The American workforce has seen dramatic changes to its makeup and the nation has moved more towards a service industry rather than agriculture. Since expectations on the President changed in regards to economic policymaking, so too did the expanding bureaucratic structure to assist the President in policymaking (Pika 2008; Lyons 1971; Rose 1977; Moe 1989).

Separation of Powers and Economic Policy Making

Presidents cannot make and implement economic policy independent of the other actors in government; therefore, it is important to consider how the separation of powers inherent in the Constitution impacts president's abilities in regards to economic policy. As previously noted, one of the biggest difficulties presidents face in management of the economy is the system of checks and balances. The concept of separation of powers is a long theoretical tradition. Political theorists such as Locke, Montesquieu, and Harrington all examined the merits of a model for the separation of powers. As far back as the Roman Republic, the concept of the separation of powers was a model for government. The American colonies first implemented some form of separation of powers in the Virginia colony between 1610 and 1630 (Wright 1933). It is no wonder that the Founders saw fit to include separation of powers into the Constitution.

The separation of powers model deals with the relationship between the American institutions established in the Constitution: the executive, the legislative, and the judiciary. The Founders included the separation of powers model in the Constitution because it balanced the power of the various institutions of government. This balance was included to prevent any one branch of government from assuming too much power (Garvey and Aleinkoff 2004).

The judicial branch has generally supported the expansion of federal power since the Roosevelt administration. Only twice since 1937 (one of which was later overruled) has the Supreme Court held that a Congressional statute exceeded the national government's power. Since 1935, the Supreme Court has not invalidated a congressional statute on non-delegation grounds (Garvey and Aleinkoff 2004; Lawson 1994).

The U.S. Supreme Court has played an important role in determining the scope of presidential power because of the vagaries of the Constitution in regards to presidential power. These cases, however, do not make their way to the Supreme Court very frequently. From 1790 to 1995, the Supreme Court heard 347 cases (or an average of 1.5 cases a year) regarding presidential power (Kimi Lynn King and Meernik 1999). Because the Supreme Court only hears an average of a little more than one case per year pertaining to presidential power, the decisions reached by the Court regarding executive power are very important.

The court often declines to hear cases challenging the legality of presidential decisions because many of the issues raised by these cases are deemed to be political matters, not legal matters. Consequently, presidents can make decisions without being overly concerned that the Supreme Court will reverse those decisions. Presidential power, especially in times of emergency, is largely unchecked by the courts. When the courts do review presidential decisions, they have often deferred to the president on both foreign policy powers and economic issues.

An economic crisis could have destroyed the nation if strict constitutional adherence continued. Without the changes made in the 1930s, the United States Constitution might not exist anymore. The country in the 1930s was poor, people were hungry, and an international war was posing a threat to the security of the nation.

While the country had been developing since the Founding, many changes took place during this period (Garvey and Aleinkoff 2004; Lawson 1994; McCloskey 1964).

Delegated Presidential Powers

The system of separation of powers draws criticism that the executive branch is using more than their constitutionally delegated powers. Some debate over presidential power stems from the non-delegation doctrine. The non-delegation doctrine suggests that Congress holds all the legislative powers vested in Article I of the Constitution and cannot delegate those powers to any other institution. This idea stems back to John Locke, “The power of the Legislative being derived from the People by a positive voluntary Grant and Institution, can be no other, than what the positive Grant conveyed, which being only to make Laws, and not to make Legislators, the Legislative can have no power to transfer their Authority of making laws, and place it in other hands”, of whom the Founders were clearly scholars (Locke 2003). However, the Supreme Court has recognized that sometimes delegation of powers is necessary.[3,4]

It has been argued that presidential management of the economy does violate non-delegation since it is Congress and not the President that is given the power to regulate commerce. Though economic policy may be deemed a legislative matter, Congress has repeatedly ceded power to the executive branch in times of economic crisis. This delegation of power has been questioned, but the presidential and

[3] *Hampton, Jr., & Co. v. United States*, 276 U.S. 394, 406, 48 S.Ct. 348, 351(1928)
[4] *Mistretta v. United States*, 488 U.S. 361 (1989)

bureaucratic realm of economic policy making that occurs today is following what appear to be the wishes of Congress.

Research Questions

In putting all of this together, we have to wonder about the president's under examined role in economic policy making and how the executive addresses an economic crisis. Economic policy is extremely important to electorally concerned presidents; yet their abilities and actions in implementing economic policy to address a crisis are not well understood. When the economy is suffering, Americans will demand their executive leader to focus on a means of addressing the situation and improving economic conditions, despite the limitations on the president.

There are a few central questions that remain when it comes to studying the presidency in general. These central questions have been examined to a greater extent concerning foreign policy, but economic policy's relationship to foreign policy will be questioned. What is the president's role in managing the economy? How has that role changed over time? Do presidents approach economic policies like a foreign policy or domestic policy? To what extent does freedom in foreign policy extend to economic policy decision making? Do limits on domestic policy making extend to economic decision making?

Perhaps looking at the unique personal qualities each President brings to the office will provide us the most insights into the presidency (Strong 2005). There is not a definitive extension of presidential power in the Constitution for addressing an economic crisis. Yet the public expects the president to address economic conditions, especially as evidenced by presidential elections and voters attention to poor economic conditions when casting their ballots. Presidents must demonstrate true leadership in addressing an economic crisis, leadership derived from their individual characteristics. Motivation to act on poor economic conditions stems from a president's personal ideology and adherence to those beliefs. Belief in themselves and their abilities is key to tackling an abstract economic problem without guaranteed results. Presidents with confidence in their abilities will be willing to try to address an economic crisis issue. Presidents do not need to be skilled in economic policy to be successful; they must be skilled in navigating the political system and have a keen belief in their abilities.

Power is at the heart of politics. The Founders greatly debated the powers the executive branch would have and the extent of those powers. These debates lead to a system of checks and balance to ensure one branch would not be superior to another; however, this relationship of shared powers may lead to instances of presidents expanding their power by claiming presidential prerogative. Presidents often claim prerogative powers to address a crisis situation facing the nation. These powers have been expanding in the modern era for presidents coping with economic crises.

Much of this expansion of presidential power exists in the realm of economic policy making. Economic policy is much more than the passage of the federal budget. Modern presidents spend much more time concentrating on economic policy but there is little understanding of the actions or reasons presidents take action on certain economic policy issues. This research seeks to provide a better understating of the president's role in economic policy making.

Chapter Two

Providing a Greater Understanding to the President's Role in Crisis Economic Policy

What's to Come?

It is evident from the foregoing discussion that the evolution of the presidency in the modern era needs to be explored in relation to the economy. While the President's role in foreign policy is often explored and debated, the President's role in management of the economy is less often considered. However, that is not to say that his role in managing the economy is unimportant. The state of the economy can impact a President and his political party, more directly than foreign policy does. Economic conditions, like foreign policy, can contribute to the legacy a President leaves behind once he retires from office.

We saw in 2009 the actions a President takes when managing the economy during an economic crisis as well as the ramifications it can have on the President and the nation. This nation endured economic crises since its Founding, yet economic policy making is one of the least understood or explored areas of policy making. There is a large bureaucracy involved in economic policy that has developed and institutionalized itself over time as well, but we know little about their interactions with the executive branch. Unfortunately, economic crises are here to stay, so it is important to learn the lessons that the past provides for future generations.

In what is to follow, three case studies will be examined to further understand the President's role as Manager of the Economy and Chief Administrator of the bureaucracy in times of national emergency. Presidents have prerogative powers they can use to address national emergencies. Presidents also have to determine when and how to use their prerogative (Fatovic 2004). Many presidents, such as Andrew Jackson, Abraham Lincoln, Theodore Roosevelt, and Woodrow Wilson, have used prerogative powers, which allow them to operate in a supra-legal manner allowing them to take unilateral action in attempts to implement the best course of action for the nation. However, prerogative powers took on a much more prominent role with the presidency of Franklin Roosevelt who took many actions to save the country during the Great Depression.

In order to explore executive involvement in economic conditions, a series of factors will be considered. First, the personality and unique qualities the President as a person brings to the office will be considered. As James David Barber postulated, the character of the person in the office can make a difference (Barber 1985). Some presidents are simply more active than others, and thus have different motivations for taking an action or traits that lead them to a decision another might not make. Secondly, it will be considered how the President derived the power to take the actions he did. Thirdly, political factors, such as external constraints, public opinion and electoral considerations will be considered to determine if these factors sway presidential action. There is a psychological factor to the economy that will be explored to determine whether presidents are capable of influencing the economy through the presidential powers of persuasion. The actions a president undertook will be examined, as will the tools available to the Chief Executive and bureaucratic leader.

What actions do presidents take to enable the bureaucracy to assist them in times of national economic crisis? How has presidential use of their role as Chief Administrator changed over time? What can we learn about these examples that will apply to current or future emergencies? How can we empower the President to find the proper balance between overstepping Constitutional limits and/or exceeding the normal bounds of a market economy and the need to respond to an economic crisis?

These are some of the questions to be addressed here. Recent events remind us that great things are expected of leaders when the economy is facing tough times. Given that the economy is cyclic in nature, questions regarding the President and the management of the bureaucracy in times of economic crisis are not going to go away; thus understanding the executive role in management of the economy will be important. By thoroughly exploring the actions of past executives, the goal of this research is to bring a greater understanding as to why and how presidents confront economic crisis with the executive powers available to them.

Presidential Responses to an Economic Policy Crisis

This research seeks to provide a better understanding of presidential responses to economic policy crises by building upon existing research to suggest a framework of presidential responses. There are three types of presidential responses to an economic crisis when a president chooses to take action: change oriented economic policy, preemptive economic policy, and electoral gain economic policy. The decision to take action depends upon the individual presidents. Knowing presidential psychology and therefore personal motivations can help determine what action a president will take.

Table One: Presidential Economic Approach to Crisis during First Term

Time	Type of Policy	Policy Approach
First Year	Change Oriented	Reactive intervention
Second Year	Preemptive	Non-intervention-> Selective intervention
Third Year	Electoral Gain	Selective or Reactive Intervention
Fourth Year	Monitoring	Non-intervention

Change oriented economic policy represents a reactive intervention policy and will occur in the first year of a presidential administration. Preemptive economic policy occurs in the second year of a presidential administration. Generally, presidents move from a non-intervention strategy to a selective intervention strategy. Electoral gain economic policy occurs in the third year of a presidential administration. This type of policy is purely reactive and may not have the nation's long term best interests in mind.

There is not a consistent approach in a president's final year of his term, when they will face difficulties taking a policy action if they decide to act and inaction is more likely. During the fourth year, a president is concerned about his reelection and is campaigning if he is in his first term; or if he is a second term, he is bound by lame duck limitations and focusing on the legacy of his administration. Most are so tied by their lame duck status that they have little time to take any meaningful action for the public to take notice of when an economic crisis presents itself. Working effectively with other government actors is difficult. Often they receive the blame for the economic crisis but face many constraints in addressing it. Instead, they begin a policy enactment, which incoming presidents, in the change oriented economic policy phase, generally build upon.

Place in the electoral cycle dictates the type of presidential response to a crisis. The timing of a crisis presenting itself in a presidential administration influences the action that a president will take as presidents weigh their interests in the electoral business cycle. However, how presidents view their interests and abilities depends upon their personal characteristics. Individual characteristics of the president influences whether or not they will take action. Of course, success or failure of the policy depends on the individual president's response and implementation of the response. The response depends upon the president's leadership abilities. Furthermore, response must be tailored to the context as presidents must balance their actions within realm of their capabilities and actions of Congress, the Courts, bureaucracy, and foreign or state governments.

How is an economic issue determined to reach the crisis level? The agenda sometimes defines an economic crisis. Media coverage of an economic event can elevate it to crisis status. Presidents can contribute to placing an economic crisis on the agenda when it comes to preemptive economic policy but for other economic events, he is more bound by the times. Still the crisis must be important to the president for him to take action. Electoral gain economic policy has the lowest threshold when it comes to defining an economic problem as a crisis, whereas preemptive economic policy has the highest threshold for presidential action. The threshold for defining a crisis during an electoral gain policy phase will be higher than for change oriented economic policy because there has not been a recent mandate for the president to take action on economic issues, however, that expectation still exists.

Economic crises occur and strengthen because of high levels of uncertainty; and there are often very high levels of uncertainty when it comes to economic conditions. Economic downturns are natural parts of the business cycle, but for Americans coping with financial difficulties or unemployment, recessions and depressions are a crisis. For worried Americans, there is no guaranteed end in sight. There is not a definitive time an economic downturn lasts. It could be a few months or a few years. It is hard to tell just how bad things will get. This uncertainty magnifies the severity of the situation. There is a psychological component at play in the economy, particularly during a crisis.

The public is often more aware and concerned about an economic crisis than a foreign policy crisis, generally because there are more direct individual effects. Economic conditions directly impact all of the public more so than many other policy areas. For a president, an economic crisis is any decreasing economic indicator conditions for which the public is concerned about. The impending changes referred to in the modern era are the policy actions and changes the federal government implements for addressing an economic crisis.

Hypothesis

Presidents and economic policy making is an understudied area; however, it is both an extremely important and highly complex area of policy. Due to its complexity and scant examination, a number of hypotheses will be examined.

Hypothesis 1: In the era of the modern presidency, there has been a growing institutionalization of the executive branch's management of the economy.

Hypothesis 2: Nevertheless, the person in the office will impact the outcome of economic policy because of his approach. Presidents approach economic management differently depending upon their personalities, their management styles, as well as the length of time they have served in their administrations and been impacted by the crisis. Some presidents will be driven to do more than others and approach actions differently. Presidential character impacts presidential performance (Barber 1992). Presidents with active personalities will be more likely to take dramatic action when it comes to economic policy. However, some presidents will stick to bad economic policy because of their individual traits.

Hypothesis 3: The economic policy produced will be dependent upon where a president is in the electoral cycle. Presidents need to be concerned with their reelection potential and poor economic conditions can and have destroyed the reelection hopes of many presidents. Therefore, presidents placing importance on their reelection potential will take dramatic action to demonstrate to the public just how capable they are at addressing an economic crisis.

Hypothesis 4: The President will be able to address economic policy in the same way he addresses foreign policy. Economic policy has elements of both foreign and domestic policy, particularly in today's globalized society. However, Wildavasky's assessment of economic policy considers it with all other domestic policies. Economic policy is an area in which unilateral executive action will often be necessary.

The expectation is that Congress delegated some of their economic policy authority to the President. In order to address the needs of their constituency, Congress will not be able to address many of the economic problems of the modern era. The President, however, can take bold action without any negative impact for members of Congress and with fewer people involved in the process, can more quickly decided on what course of action to take given the complex nature of the economy.

Hypothesis 5: Presidents will need knowledgeable and active economic advisors with whom they maintain a good working relationship in order to effectively address or preempt an economic policy crisis. The Secretary of the Treasury will be a key appointment when it comes to management of the economy, because they will provide the technical expertise the President does not possess.

Method

Differences in individual presidents are hard to capture with large scale quantitative models. The sporadic and largely undefined occurrences of economic crises also add to these difficulties. The differences among the presidents often make the case studies method the best approach for examining these issues. Additionally, the individual intricacies of individual presidents is believed to be a key determining factor in economic policy making in times of crisis in this instance. Since there is a scant body of literature on executive policy making during an economic crisis, a theoretical baseline needs to be established. In order to establish a baseline of executive performance during economic crises, case studies will be used to examine presidential actions during times of economic crises.

The issue to be examined is the presidential power in relation to economic policy and the policy making process. The goal is to use select incidents to provide greater insights into the economic policy making process. This research should help create a basis for further quantitative evaluation as well as to create and refine theories of economic policy making in times of crisis.

Three economic crises during presidential administrations will be explored: Franklin Roosevelt and the banking crisis, Richard Nixon and the wage and price controls, and Bill Clinton and the Mexican loan guarantee program. There are a number of reasons why these particular instances are prime for advancing our understanding of economic policy making. They provide interesting variations, particularly in time within administration, contextual considerations, and economic issues, to consider.

There is not a single best approach to the case studies method. When selecting the cases for this study, the goal was to identify the more extreme cases and select cases at different points in time in order not to cluster events around any particular time. There are five main purposes of a case study that make them perfect for this type of theoretical testing: testing theories, creating theories, identifying antecedent conditions, testing the importance of these antecedent conditions and explaining cases of intrinsic importance (Strong 2005). Controlled comparisons will be used to compare observations in economic crises among presidential administrations (Van Evera 1997). The goal here is for case studies of certain presidents to provide a greater understanding of how another president under similar conditions might behave (Gerring 2004).

Random sampling is not appropriate when determining which cases to explore in an in-depth analysis. The problem becomes finding appropriate cases without biasing results. Case studies are ideal for theory testing and here the goal is to provide a descriptive understanding of presidential action during times of economic crisis. This does exclude some cases from examination here. In all cases, an action had to be taken by the executive when an economic crisis presented itself and it had to occur during each stage of a presidential administration in order to test reactions (McKeown 1999; Gary King, Keohane, and Verba 1995; Gary King 1994; Epstein and Gary King n.d.; Seawright and Gerring 2008). The cases selected are meant to be representative of different presidents at different time points with differing contextual factors.

Table Two: Select Economic Crises in the United States

Year	Event
1932-1933	Banking Crisis
1949	Recession
1953-1954	Recession
1958	Recession
1960-1961	Recession
1969-1970	Recession
1973	Oil Market Crisis
1973-1975	Recession
1974-1980	Inflationary Crisis
1981-1982	Recession
1982	Mexican Debt Crisis
1985-1986	Savings and Loans Crisis
1987	Stock Market Crash
1990-1991	Recession
1992-1993	Federal Deficit Concerns
1995	Mexican Currency Crisis
1997-1998	Asian Financial Crisis
2001	Recession
2007	Subprime Mortgage Crisis

A number of factors guided case selection. Many examples of presidents taking the initiative to address an economic crisis, but three cases will be explored in greater detail here. First, the actions of Franklin Roosevelt will be explored during the greatest economic crisis that has faced the nation to date. This example is particularly interesting given the current economic environment and the fact that Roosevelt's actions set the stage for all subsequent presidents to follow in times of economic crisis. Roosevelt's actions during the Great Depression serve as a guideline for all subsequent presidents confronting poor and rapidly declining economic conditions.

The second case study to be explored will be the wage and price controls imposed by President Richard Nixon to address rising inflation about thirty years after

Roosevelt's actions. The third and final case to be explored occurred less than thirty years later when President Bill Clinton took unilateral executive action to impose a bailout program for Mexico. All of these cases present both unique interactions with Congress and dealings with key advisors in the economic policy making bureaucracy. They also represent different stages of presidential administrations in times of crisis.

All of the cases selected are twenty to thirty years apart so that the cases are not clustered in the same time period. They also represent different points during a presidential administration since this is assumed to be an important factor in determining what actions a president will take. President Roosevelt came into office thanks to an election where he promised action to address the economic crisis, action that he took immediately after his inauguration. President Nixon was nearly done with his first term and facing an upcoming presidential election for his second term when he confronted an economic crisis during his third year in office. President Clinton was past his honeymoon period, just past the midterm elections, and at the end of his second year without an impending presidential election on his mind when he decided to act on an economic crisis and made it a prominent item on the agenda that might not otherwise been noticed.

The case studies represent different political conditions. President Roosevelt was a Democrat and served with a Democratic controlled Congress. President Nixon was a Republican serving with a Democratic controlled Congress, while President Clinton was a Democrat with a newly Republican controlled Congress. When divided government is the case, it would be more difficult for the executive and legislative branches to work to address an economic crisis assuming the President and Congress are rational actors with their own reelection goals in mind.

Case Studies Variables

The main precedent for the expansion of presidential powers to address an economic crisis was set by President Franklin D. Roosevelt during the Great Depression. President Roosevelt took office with a mandate from the people to bring about economic change. As President, he exercised presidential prerogative powers to attack the Great Depression. Roosevelt likened the need for action to the powers the president has as commander in chief of the armed forces and as if weakening economic indicators were foreign invaders. He reasoned extension of presidential powers was in the best interest of the nation, perhaps the only means of survival for the current economic and political system. Being early in his term, President Roosevelt was in a good condition to lead economic change.

Presidential power stems from the power to persuade and a president’s ability to bargain (Neustadt 1980). With the dispersion of power due to the separation of powers, presidents must always be willing to bargain to achieve their goals because they cannot just issue a command and expect it to happen. Presidents need the cooperation or at least the acceptance of other branches of government to get things done. Still, presidents must ensure others his will is in their best interest. Presidents possess the greatest powers of persuasion during their first year in office, particularly their first hundred days honeymoon period or when they are popular in public opinion polls, especially when there is a crisis and the nation seeks leadership. President Roosevelt was in a very good position to seek economic change to address the crisis the Great Depression presented and the American public expected him to be able to produce economic change.

The president has sources of power to rely on in order to produce economic change. Presidential powers stem from the Constitution. However, those powers cannot fully create the changes necessary to address a crisis. Presidents must have good interpersonal skills to work with the other branches of government to produce the desired change. Public approval ratings and reputation help boost presidential power. With so many issues and actors competing for attention, it is also important presidents have the ability to control the agenda. Presidents must have the skill and willingness to use all the tools available to a president to exert his power and influence (Neustadt 1980).

While the basis of presidential power and personal powers of persuasion may serve to benefit the President, certain factors impede a president's ability to address an economic crisis. Does the legislative branch, judicial branch, bureaucracy, or even the American public present serious challenges to a president addressing an economic policy crisis? Does he have enough of a background in economics to implement a policy to address an economic crisis? Or does he have competent advisors in place that can address and implement a plan to address a crisis? Even with all the best planning, will the policy implemented effectively address an economic policy crisis? Despite having the best information at hand, sometimes even economic policy experts run the risk of getting the policy outcome wrong. Will state, local, or international governments interfere with a president's policy to address an economic crisis? How does a President decide to take action and implement a policy?

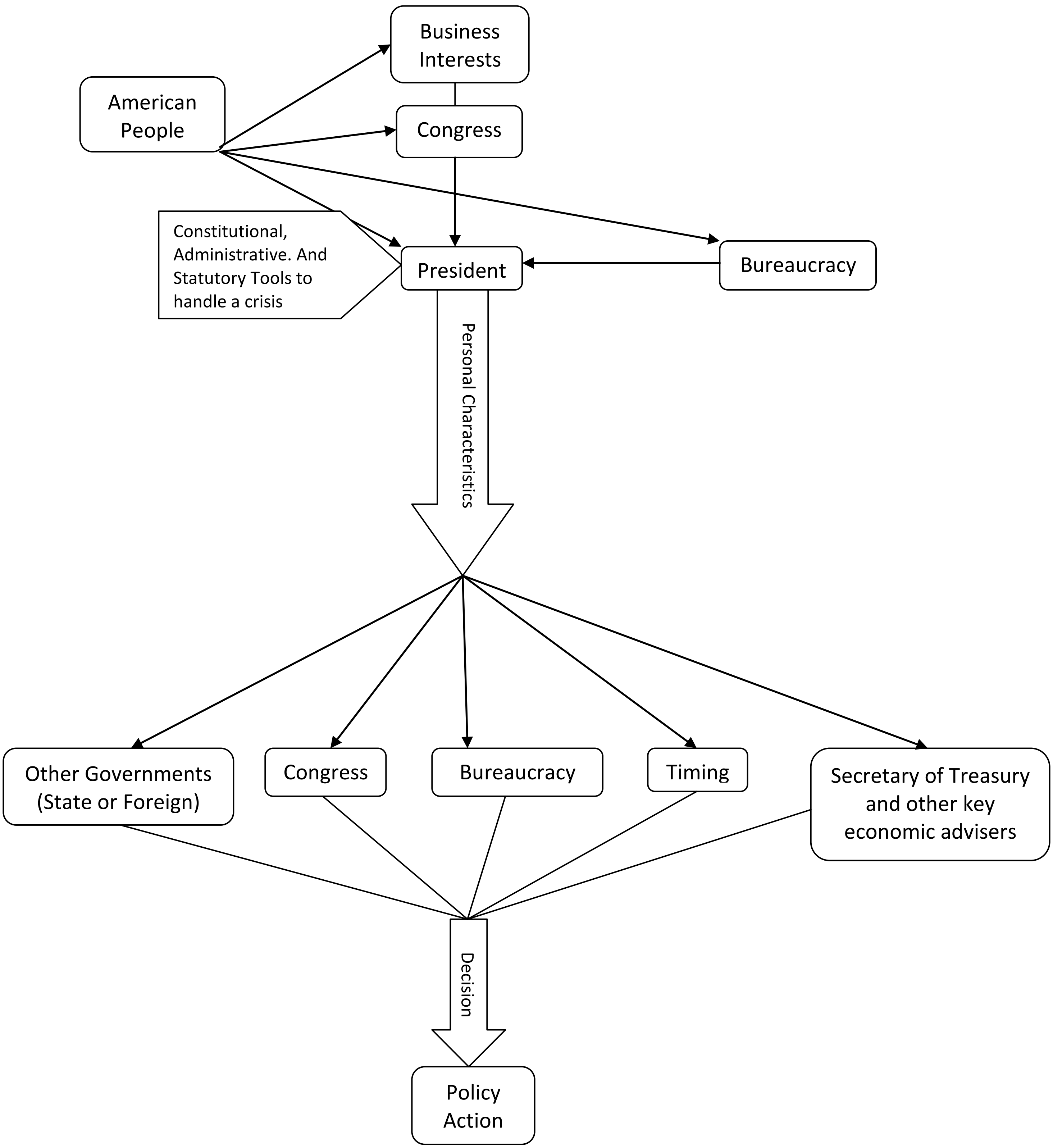

Figure One: Interaction when an Economic Crisis Occurs

Intricacies of Individual Presidents

The Constitution and institutional elements of the executive branch guide a President in everything he does. But the formal basis of presidential power is narrow. The duties and responsibilities placed on the executive expanded over time and not necessarily within the bounds of a textual interpretation of the Constitution. Therefore, effective presidential leadership depends upon the qualities an individual brings to office. Reputation, persuasiveness, political skills, self-confidence, and motivations of the man in office influence the presidency (Neustadt 1990).

The institutional demands on the executive have expanded. Presidents need to be able to manage an extensive bureaucracy as well as navigate the political system to achieve their goals. Presidential management of the bureaucracy and abilities or desires to navigate the political system depends upon presidential personality (Neustadt 1990; George 1980; Campbell 1993; Hermann 1995; Hargrove 1993; Simonton 1987).

Personality affects leadership and a President's decision-making style. It is of great importance to policy making of any type, but of particular importance to economic policy making (Barber 1985; Neustadt 1980). Presidents have different qualities that guide their leadership skills and define their success (Dallek 1996).

Leader's beliefs and views can shape the decision making process and the ultimate policy outcomes (George 1969; Holsti 1970; Leites 1951; Walker 1977; Walker Schafer, and Young 1998; Axelroad 1976; Young 1996; Boulding 1956; Cottam 1994; Cottan 1977; Herrmann and Fischerkeller 1995). Certain characteristics dominate a president's operation and should prove important when creating policies to address an economic crisis. The need for power, achievement and affiliation (Etheredge 1978; McClelland 1961, 1975; Terhune 1968; Winter 1973, 1987) as well as a leader's self-confidence (Hermann 1987; House 1990; Winter, Hermann, Weintraub, and Walker 1991) has shown to be important personal attributes in a president's policy making style.

While critics argue personality cannot have such an impact within an institutionalized structure, the man in charge has been known to leave his personal mark on the institution (Hargrove 1973; Lowi 1985; Nelson 2000). While certainly, personality cannot explain everything a president does, individuals' personal characteristics would provide additional perspective as to reaching the decision to take an intervention policy action and as to why a person would take a particular action during an economic crisis.

The executive branch does not have the same formalized institutional structure that so strongly guides the legislative branch and judicial branch. Changing a member of Congress or a member of the Supreme Court does not have the same impact on the operation of the branch as a change in executive leadership. Each incoming president must learn the institutional nature of the executive branch and create a structure that functions within his unique leadership style. Within the executive branch, it is the leadership that changes with each incoming president and the other branches of government are not subjected to the same types of changes in leadership.

Personal qualities influence everything a president does. Personality interacts with virtually every contextual factor in the case of the presidency whereas for other institutions, it does not. A change in leadership can impact the operation of the executive branch. The executive is still an institutionalized office, but there is much more freedom to operate in certain areas as there are not strict guidelines that must be adhered to. This remains the case for presidents dealing with economic crises, as presidential power in addressing economic policy has greatly expanded since the Great Depression and limits on presidential power in addressing an economic crisis are not firmly established. Therefore, interpretation of the limits and creation of an economic policy during a crisis is strongly dependent upon the leadership of the executive, which is determined by the president's personality.

Administrative Tools

The president has many administrative tools available as the leader of the executive branch. How does the president use one of his previously identified roles to address an economic crisis? The president can use his role as Manager of the Economy to take the lead initiative in economic policy. However, presidents will also have to effectively navigate their other roles as the executive, such as Chief Legislator and Chief Executive of the United States, in order to create a successful economic policy. In times of crisis, presidents may also be able to assume some power similar to his powers as Commander-in-Chief.

Are presidents able to exert the same influence as a corporate CEO in the private sector addressing major economic setbacks or disasters facing a company? Presidents have an extensive economic policy bureaucracy, similar to the foreign policy bureaucracy that can help them address an economic crisis. How does the president interact with the bureaucracy to achieve their goals in creating a policy to address an economic crisis? Which advisors do presidents rely on and how do they interact? Presidents have the ability to exert their influence over the bureaucracy to control policy outcomes, primarily due to the President's appointment powers (Wood and Waterman 1991).

Presidents must work to create optimal economic conditions for the nation, all the while knowing their time in office is limited no matter what they do. Unlike corporate American, big paychecks will not fall into the pockets of presidents who provide the nation with prosperous economic conditions. However, successful economic policy can provide electoral success, leave a positive lasting legacy, and provide the president with positive support to pursue other policies. All the while, they are also dealing with many other difficult policy situations, often involving nations from all parts of the world, and a wide range of domestic and foreign policy issues.

Statutory Tools

The president must faithfully execute the laws of the federal government. This broad duty has allowed for an expansion of presidential powers. With this obligation comes a series of Constitutionally and legislatively defined abilities. These abilities provide the executive with the legal authority to address an economic crisis. What statutory authority did a president identify when confronting an economic crisis? These abilities and the expectations placed on a president have expanded over time so that it is expected a president will take action to address an economic question. The only real question is how a president will do that.

Standards of Evaluation

Economic events and conditions are very important to a presidential administration. Their success or failure can hinge upon the performance of the economy. Presidents largely have their hands tied in quickly changing taxing and spending policies in the short term to address a crisis; however, presidential administrations must work with Congress over a longer period of time to effectively create taxing and spending policies favorable to their economic policy plans.

Economic policy to deal with an economic crisis involves the creation of policy in the short term. Presidents must be monitoring a situation and made aware that action needs to be taken in order to ease an economic problem. Once a president is aware of a situation, he must make the decision to act. Then he must decide on the proper course of action to embark upon. There are a few strategies a president can embark upon when it comes to managing the economy: non-intervention, selective intervention, reactive interventions, or mandatory interventions, ranging from least to most intrusive (Rose 1985).

Which strategy do presidents engage in to address an economic policy crisis: non-intervention, selective intervention, reactive interventions, or mandatory interventions (Rose 1985)? If a president chooses to respond to an economic crisis with some sort of intervention in the free market, he is not engaging in a non-intervention policy. It is more difficult given the modern expectations on presidents for the executive not to intervene in an economic crisis. The American people and often business interests expect the President to act. Presidents that do not act to address an economic crisis will lose public confidence, which is dangerous for presidents seeking reelection that wish to keep their jobs.

Non-intervention policy basically means a president monitors economic conditions but chooses not to take action to intervene in the free market, which is commonly used by presidents. In order to be aware of a crisis situation, presidents must be monitoring conditions. The public or other contextual actors, such as Congress need to be aware of the crisis situation and not attempt to impede executive action. Presidents devote different amounts of time they spend dealing with economy policy, as they must also be concerned with foreign policy, defense, and a series of other domestic matters. Non-intervention can precede more intrusive interventions to an economic situation if the crisis continues to grow.

When a president engages in a selective intervention strategy, he takes initiative on a particular policy aspect and succeeds in his objective. Reactive intervention involves a president taking action to stall worsening conditions as the public demands the government take some sort of action to aide poor economic conditions. Mandatory interventions are required by law, and include the president's budget making role.

Context of the Executive Branch in American Politics

The president is not the only actor in American politics. In a system of separation of powers, the president has the exercise of his powers checked by the other branches of government. This often proves to be the most difficult constraint on executive policy enactment. The context environment in which a president behaves is an important gauge of his reaction to a situation. There is a "triangle of forces" that influences presidential action (Russett 1990). One influence on the president is the public, including electoral phases and presidential standing. Another major influence on the president pertains to the politics within Washington, which include Congress and bureaucratic politics.

Congress plays a role in economic policy. The Congressional response to an economic crisis can dictate the executive's response to an economic crisis. Presidents must manage their response to an economic crisis based on the actions of Congress and the president's ability to work with Congress. Congress will likely provide the greatest challenge for the president in addressing an economic crisis because of the duties provided to the legislative branch in relation to the economy in the Constitution.

Presidents must also be mindful of legal boundaries and manage the exercise of power within the bounds of the law. Supreme Court challenges to executive power are not that common, but can present difficulties for presidents. The goal is to avoid legal challenges or at the very least avoid short term legal impediments to policy action.

Of course, the American people are also important when it comes to how presidents address an economic crisis. Often, it is the public indicating to their government they want an economic crisis to be dealt with. The public's attention is often focused on economic issues when the economy is not performing well. They expect their leaders in government to address the issue with a policy that quickly works to solve the problem.

All presidents are limited in the amount of time they have in office. Timing impacts the power they have in office as well. Presidents have the most autonomy in their initial "honeymoon" period in office and their final months in office (Monroe 1984). Whether they are in their first or second term in office will also influence their actions and abilities while in office. Since national economic performance can play a role in how long presidents remain in office, presidents need to be mindful to properly address economic situations to ensure electoral success in an upcoming election.

Chapter Three

Franklin Roosevelt and the Banking Crisis of 1933

Creating a Economic Policy the First Months in Office

When an economic crisis confronted the nation, Americans wanted Franklin Roosevelt as president instead of Herbert Hoover as evidenced by the 1932 presidential election; and with good reason since Hoover failed to take noticeable action to address the economic crisis, particularly the banking crisis. What the American people needed to get them through the crashing economy of the late 1920s, early 1930s was true political leadership. Instead, they had a man in office that had never held an elected position before the presidency. This resulted in a president who acted more as the head of a bureaucratic agency would instead of the leader of the nation as a crisis was emerging. This executive inaction paved the way for a man whose personal characteristics represent the perfect template for the modern president and modern presidential leadership.

Throughout the late 1920s and early 1930s, economic conditions were worsening throughout the United States and the world. President Herbert Hoover, a man with noted business sense and whom advisers believed to have above average intellectual abilities regarding economic policy as an executive, did little-to nothing to ease the economic burden for Americans. Hoover left office and lived the remainder of his life as a former president with the burden of being known as the president whose policy shortcomings and failures lead to the Great Depression and made it the crisis that it was for the nation.

It seemed Hoover failed because he was simply the wrong man for times. Instead, a politician from New York emerged as the savior of the Great Depression by taking previously unorthodox executive measures to address the makings of an economic crisis. However, it was the Hoover administration that created the plan Roosevelt would take when he first entered office. One president decided to take action to address the crisis in the banking industry while another did not. President Roosevelt's actions shaped the public's expectations of presidential management of the economy and actions modern presidents can and should take in the realm of economic policy. Right or wrong, the president is the leader in American politics the public looks to its leader during poor economic conditions for a solution.

President Franklin D. Roosevelt set the standard for modern presidents of intervention by the federal government to address national economic conditions. The President took the lead in addressing poor economic conditions with the same level of authority as the commander-in-chief in a crisis. Therefore, when economic conditions are reaching crisis potential in the minds of the American public, they look towards the executive branch to solve the problem. Yet, perhaps the most interesting part of the Roosevelt situation is the difference in behavior compared to Hoover. President Roosevelt took action President Hoover and his advisers planned but could not implement.

Roosevelt effectively used the tools of the presidency in his first step in addressing the Great Depression by introducing the banking holiday soon after entering office to address the banking crisis. Hoover did not have the right personal characteristics to effectively use the tools of the presidency in a crisis situation. Since he was at the very beginning of his first term in office, he could use political capital and the support of the public to work with other branches of government to produce the desired change. The American public wanted change on economic conditions; however, outgoing President Herbert Hoover did not have enough of a power base or personal political skill to achieve that change.

The Roosevelt presidency can provide insights into management of an economic crisis during the first hundred days. Actions taken to address the banking crisis demonstrate how presidents can use the political system and their executive power to get results. During his first hundred days, Roosevelt provided his successors with examples of setting the agenda for Congressional action, timing proposals, and transforming a seemingly inevitable defeat into a victory .

In order to achieve quick results, President Roosevelt worked with holdovers from the Hoover administration and his own key economic advisors to devise a plan to address the economic crisis. The target was worsening banking conditions. A few days after entering office, President Roosevelt issued an executive order to temporarily halt banking operations and impose a banking holiday. In order to ensure the success of his policies, he worked with Congress to get legislation his advisors suggested passed that supported his policies towards the banking industry.

Roosevelt proves to be a great case study. He is the architect for the methods by which future Presidents would manage the economy. The idea that Presidents have the same powers when facing an economic crisis as when facing a military crisis gained credibility thanks to the Roosevelt administration and the actions taken early in his administration. The crisis also occurred during the first hundred days he was in office; a time advantageous for presidents seeking to implement change.

The Economic Crisis: The Decline of the Banking Industry

There were many signs of a weak American economy in the early 1930s. Nearly one third of the working population, estimated at between 13 and 18 million Americans were out of work. Foreclosure hit one in six homes and there were not enough resources at charitable organizations to feed the hungry. People could not afford medical care, so even many physicians were forced to turn to bread lines (Downey 2009). And things were only getting worse.

The problems with the economy in 1932 were enormous. The manufacturing sector was suffering; steel plants were operating at 12 percent of capacity, industrial construction dropped from $949 million to $74 million in 1932, and around 13 million Americans were unemployed. Republican President Herbert Hoover was ironically criticized by Democrats for doing too much to help the economy because of too much government spending. However, he would later be criticized as doing too little and his Democratic successor would take actions that would forever impact the federal government's role in economic policy. New York Governor, Franklin D. Roosevelt, emerged as a front-runner among Democrats for the Presidential Campaign of 1932, even though many people within his own party were disturbed by the vagueness of his formulas for recovery (Leuchtenburg 1963).

Early 1933 was not kind to the American people from an economic perspective. Thirty-six out of forty key economic indicators hit their lowest points in 1933 during the entire eleven years of the Great Depression. The stock market declined 75 percent from 1929 to 1933. Over 600,000 properties were foreclosed and exports were at their lowest levels since 1904. Personal incomes were cut in half and widespread social unrest, political protests, and, in some cases, violence ensued (Alter 2006). The situation deteriorated because the American people were not sure when or if things would get better and worried over just how bad things would get.

Americans today often remember the October 1929 Stock Market Crash as having the biggest impact on the Great Depression. However, few Americans at that time felt the direct effects of the stock market crash since only a small portion of the population actually owned stocks. It was the collapse of the banking system where the average American felt greater effects of the Great Depression (Alter 2006). Economists estimate that the prolonged economic crisis actually began with the first banking panic in October 1930 (Coe 2002).

There were many independent banks owned by local entrepreneurs in the early 1900s and many of those banks were capitalized well under $100,000. The entrepreneurial spirit took priority over national banks and people preferred their local banker to a big time New York banker. In contrast, nationwide branch banking was required by law in Canada and only one bank failed in that nation during the worldwide economic crisis. A total of ten thousand banks failed in the United States during that period (Alter 2006).

A domino effect of events that began years earlier brought down the banks by 1933. The base of the American economy at this time was the agricultural sector with half of the working population being linked to agriculture. As European nations recovered from World War I, they no longer needed to import the products of the American farmer. With sinking demand, prices for crops fell. In need of capital to afford to grow crops, farmers borrowed additional money from banks to plant crops, but with no recovery in the agricultural industry, farmers had no means of repaying their loans to the banks. In turn, banks did not have money to lend to other industries and were losing customers' deposits to bad loans (Alter 2006).

Government policies were also not helping the economy in 1933. The Federal Reserve's restrictive money supply, the Smoot-Hawley tariff, and adherence to the gold standard all bore a heavy burden on the economy (Alter 2006). These policies all led to a decrease in demand for goods, leading to lower levels of production and high unemployment. Adding to the domestic problems, isolationist policies cut international trade in half. The Federal Reserve stubbornly clung to its policies even as other nations were abandoning the gold standard (McJimsey 2000). At that time, the federal government was doing little to ease the burdens of the Great Depression. In actuality, government policies were actually making the economic situation worse. Liquidity was drying up.

Government intervention in 1932 only made the banking crisis worse. The bill expanding the Reconstruction Finance Corporation (RFC) required public disclosure when banks received an RFC bailout. This signaled to the customers of those banks that their banks were in trouble and could be the next to fold, leaving depositors with nothing. People rushed to get their money out of those banks that received bailouts, which increased runs on those banks and worsened the situation. With so many bank failures, the norm by 1933 was for people to take all their money out of the bank and hide it, because anywhere—including under the mattress or buried in the back yard—was viewed as safer than keeping it in the bank. However, money under the mattress or buried in the back yard did not go into circulation thereby shrinking the money supply (Alter 2006).

While many factors contributed to the Great Depression, there were few situations the government could quickly address. One of the largest problems where the government could have intervened was the issue of multiple bank failures. The banking system had been in crisis for many years. There were 1,352 bank failures in 1930, with nearly half of those failures coming in the last two months of the year. A total of 2,294 banks failed in 1931 and an additional 1,433 banks failed in 1932. These failures came at a time when a bank's closure meant depositors lost all of their funds (Hamby 2004).

Bank failures struck every part of the nation by the end of February 1933 and people rushed to banks to withdraw their funds because so many banks had failed; money seemed safer anywhere other than the local bank (Leuchtenburg 1963). By inauguration day in 1933, nine million Americans had lost their savings through bank collapses (Lammers 2000). Consequently, one of the first measures taken to address the economy focused on banks.

Many state governors were already planning limits on banking to prevent a run on the banks. The Governor of Nevada declared a bank holiday in October 1932, because of the massive waves of bank failures striking the Western states. Detroit's banking system collapsed in February 1933 and on February 14, 1933, Governor William Comstock of Michigan declared an eight-day banking holiday. This holiday tied up the funds of 900,000 people with a total of $1.5 billion in bank deposits (Leuchtenburg 1963).

Closing the banks was the only means of stopping people from withdrawing their money. There were a lot of people who took their money out of banks in the lead up to Roosevelt's inauguration because they feared devaluation of the dollar if Roosevelt did not support the gold standard. Roosevelt made few public statements to indicate what his economic policies would be. New York, Pennsylvania, and Illinois joined with other states and closed banks on his inauguration day, which meant that thirty-four out of forty-eight states had no banking system on inauguration day (Alter 2006).

The problem was apparent; the economy was in ruins and the banking crisis needed to be solved in order to facilitate economic recovery. However, it wasn't clear how to solve such an enormous problem. The challenge was helping the economy while obtaining long term economic relief. The American public needed to know that the government could help. Roosevelt needed to restore hope and demonstrate to the American public that the government was willing to help.

The Economics of the 1932 Election and New Action

Despite the complexities of economic policy, it has very direct effects at the ballot box. Economic policy is not as clear-cut as either foreign policy or domestic policy because it contains elements of both. The exercise of power in the economic realm is vague, especially considering how much the American economy has changed since the Founding. One thing that is obvious is that economic policy has important ramifications in electoral cycles.

The economic crisis reaped electoral benefits in the political spectrum for the Democratic Party in the 1932 election. Roosevelt was elected because the American public wanted a leadership that was different from the leadership that President Hoover had provided (Byrnes 1997). The stock market crash of 1929 and the ensuing downfall of the economy made a mockery of the Republican Party's claim of being the "Party of Prosperity". By inheriting the electoral benefits of the economic crisis, the Democrats were also charged with solving the problems of the economy (Leuchtenburg 1963).

Voters often make selections at the ballot box based on their pocket books. Vice Presidential running mate, John Garner, described FDR's election chances by stating that, "All you need to do is stay alive until election day. The people are not going to vote for you. They are going to vote against the depression." Roosevelt won the popular vote 57 percent to 40 percent and performed even better in the Electoral College (Lammers 2000).

Roosevelt came to office with a public mandate for immediate action not seen since the days of Lincoln and the threat of Southern secession. Economic theories of prosperity during the 1932 campaign seemed vague because they were still under development. Historians note that Roosevelt had not yet devised an economic plan during the 1932 campaign. Despite a myriad of policy solutions being created, none were well understood or politically viable it seemed (Lammers 2000).

With the banking crisis came the opportunity for rapid, decisive action (Hamby 2004). Governors around the nation were responding to the banking crisis at the state level. Thirty-eight states had closed their banks before Roosevelt's inauguration day on March 4, 1933 (Leuchtenburg 1963). New York and Illinois declared banking holidays on inauguration day (McJimsey 2000). It was only fitting for the federal government to follow.

Roosevelt directed Secretary of the Treasury William Woodin to draft an emergency-banking bill and gave him a deadline just five days after coming into office. On March 5, 1933, Roosevelt issued two executive orders. One order called Congress into special session on March 9. Roosevelt supported by overwhelming Democratic majorities in Congress: 313 to 117 in the House and 59 to 36 in the Senate (Leuchtenburg 1963; Lammers 2000). These party majorities served him well. The other executive order he issued halted transactions in gold and proclaimed a national banking holiday (Leuchtenburg 1963). On March 6, 1933, President Roosevelt issued

Presidential Proclamation 2039 ordering all banks already closed to remain closed until March 9 and issued Presidential Proclamation 2040 to keep banks closed longer (Powell 2003).

These executive actions would be strengthened by the support of the legislative branch. Proclamation 2039 established what was referred to as a “bank holiday”. This bank holiday gave Secretary of Treasury William Woodin and his staff time to draw up an emergency banking bill (Hamby 2004). A lot of consideration was given to how this bill would be packaged. Banks were shut down to prevent a run on deposits until the system could be stabilized (Downey 2009).

The Context of Presidential Actions

The Intricacies of Herbert Hoover

Herbert Hoover had a remarkable career, expect for his time in the White House. Considered a below average president, overall, Hoover is ranked 31st out of 43 presidents (Taranto and Leo 2004). Hoover’s legacy as president is very much impacted by his economic policies. President Hoover seemingly had the background in economics to address an economic crisis. However, he lacked the will or ability to enact a plan devised by his administration to address the banking crisis.

Hoover's problem in addressing the banking crisis stems from the fact that he is not a politician. His entire personal background made him an unsuitable choice for handling the ensuing economic crisis as president. Hoover never held an elective office before becoming president. However, he did have experience dealing with economic policy before coming to the White House. Hoover served as Secretary of Commerce during the Warren Harding administration and greatly strengthened the role of the Commerce Department in economic affairs (Neustadt 1990).

This lack of direct political experience left him handling a growing crisis situation more as if he was still head of a cabinet department rather than the President of the United States responsible for directing cabinet departments. He researched answers to the economic problems and considered all of them rather than which ones would be politically optimal and possible. Instead of initiating action, he sought the cooperation of Congress, federal agencies, and even president-elect Roosevelt. When their cooperation did not follow, he seemed to take it rather personal and did not prove capable of acting. Hoover, as president, could be the leader in finding a solution to the problem but did not assume leadership of the problem. His lack of leadership in this situation stems from his personal characteristics.

From a personal qualities perspective, Hoover was one of the most poorly suited individuals for the job of president. According to an Index of Personality Rankings for all presidents through George W. Bush, Hoover scored a -1.6. Only Ulysses Grant and Warren Harding scored lower, with a -1.8 and -1.9 respectively. On the contrary, Franklin Roosevelt was very well suited for the job, scoring a 1.8, making him the second best personality suited person for the presidency just behind Theodore Roosevelt (Rubenzer and Faschingbauer 2004). Hoover was an intelligent and very skilled man; but his personal characteristics made it so that he was unable to thrive in the White House.

Hoover did not create the economic problems; he was just unable to address them appropriately. The economy is cyclical and will not always operate in a positive manner. Economic conditions were deteriorating during the Hoover administration but it was not the creation of President Hoover or due to a lack of interest in the American public or subservience to corporate America. Hoover's anti-depression policies were catastrophic, but his personality caused him to stick to those beliefs (Barber 1985). While his reputation would recover before his death, Hoover left office as one of the most despised presidents for not effectively dealing with the Great Depression (Ridings 1997).

The American public saw Hoover as an inactive president who did not understand or care about their economic woes. According to Barber, Herbert Hoover would be classified as an active-negative president. This same classification applies to President Richard Nixon. The best way to describe the overall personality traits of these individuals is as compulsive. One thing Barber notes about active-negative presidents is that they will persist in disastrous courses of action because they do not want to cede their control by admitting they were wrong (Barber 1985).

Hoover was unwilling to compromise on his policies or adapt his policy plans if things did not go his way. Advisers in the Hoover administration suggested the bank closures policies; however, Hoover wanted Roosevelt's cooperation and support in order to enact the policy. As Table Three demonstrates, Hoover continued to ask for Roosevelt's cooperation but when it was not received no action was taken. Adding to delay in action, Hoover waited for Congressional action. On measures he wished enacted, he failed to work with Congress to achieve a positive outcome. President Hoover was unwilling to show true leadership or consider the possibilities of how things could be. Instead, advisers in the Hoover administration created policies that the Roosevelt administration would enact.

Table Three: Timeline of the Banking Crisis Prepared by the Hoover Administration

The banking collapse is a record of the breakdown of public confidence following the election on November 8th to March 4th, in an acceleration fear of the new Administration. The following incidents bear upon it.[5]

November 9th
- The immediate hesitation awaiting the change of policies.

November 10th
- The beginning of cancellation of hundreds of millions of manufacturing orders.

November 10th
- British and French ask for reconsideration of debt payments, followed by other governments.

November 12th
- President Hoover spoke at Glendale on need of immediate cooperation with new administration, upon economic situation, and promised full effort to secure unity of action.

November 12th
- President asks Roosevelt to cooperate upon world economic questions.

November 19th
- President sets a net cut of $850,000,000 in appropriations.

November 24th
- Roosevelt opposes selection of Commission on world economic questions, and sidesteps any participation in cooperative action.

November 29th
- Roosevelt directs that there shall be no confirmation by the Senate of President Hoover's appointments.

December 5th
- Congress conveyed.

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[5] Prepared by officials in the Hoover administration, from the Hoover Presidential Library Papers.

December 6th

- President's message asks for cut of $850,000,000 in appropriations and increase of revenues by sales tax to balance budget.

December 17th

- President again asks Roosevelt to cooperate on speedy settlement of world economic questions.

December 19th

- President sends message to Congress urging speeding up and cooperation on world economic questions.

December 22nd

- Roosevelt again refuses to cooperate on speeding up settlement of world economic questions. (Correspondence published.)

December 27th

- Governor Roosevelt called upon Democratic leaders of Congress to repudiate the agreement for balancing the budget, which they had entered into with the Hoover administration.

December 30th

- Disclosure in *New York Times* that Roosevelt had requested the repudiation by Democratic House of President Hoover's consolidation of bureaus and government services for purposes of economy.

January 4th

- President denounces Congress for blocking reorganization plan and thus increasing government expenses.

January 5th

- Governor Roosevelt's conference with Democratic congressional leaders in which President Hoover's tax program is rejected and new income taxes agreed upon and announced by Garner.

January 6th

- Democratic members of House and Senate rebel at Roosevelt's tax program. Roosevelt denied program came from him.

January 9th

- Democratic congressional leaders abandon their own tax program.

January 10th

- President sends special message to Congress again urging action on Bankruptcy Bill.

January 10th

- Beginning of filibuster on Glass Banking Bill by Long and others.

January 11th

- President discusses Hyde's farm bill with congressional leaders, who consider Democratic opposition precludes passage.

January 12th

- House of Representatives pass Domestic Allotment Farm Plan requested and pledged by Governor Roosevelt. It would cost $1,200,000,000 per annum.

January 17th

- President Hoover sends message to Congress again urging balancing of budget and exposes evasion of expense reduction.

January 18th

- Democratic congressional leaders announce that they abandon all efforts to balance budget and will not permit tax bill.

January 20th

- By strict party vote Democratic House rejects President's consolidation economy plan.

January 21st

- Roosevelt asks British to send representatives to Washington March 4th to discuss war debts.

January 21st

- Roosevelt announced government expansion and operation of Muscle Shoals.

January 25th

- Democratic Senate leaders launch a $1,500,000,000 farm loan mortgage plan.

January 25th

- Publication of all R.F.C. loans for first six months to 4000 banks against protest of all responsible Democratic and Republican leaders alike. This led to runs on thousands of banks, with many failures and spread of alarm.

January 25th

- Glass banking bill passes Senate.

February 2nd

- Roosevelt issues his development plan for Tennessee Valley, etc.

February 4th

- Roosevelt goes for two weeks fishing on Vincent Astor's yacht.

February 7th

- Senate defeats President Hoover's government employee pay cut proposals.

February 8th

- Robinson proposes bill stopping publication of R.F.C. loans. Governor Roosevelt disapproves bill, which is dropped.

February 9th

- Garner proposes dictatorship over expenditures.

February 10th

- Mrs. Roosevelt chooses inaugural gown.

February 13th

- President Hoover delivers address in New York on world economic cooperation.

February 13th

- Increases tariffs on depreciated currency imports defeated by Democratic vote in House.

February 13th

- Governor of Michigan declares an eight day banking holiday.

February 18th

- President Hoover requests cooperation of Governor Roosevelt to stop panic. Roosevelt evades cooperation.

February 21st

- Federal Reserve Board Advisory Committee asks Governor Roosevelt's cooperation to stop panic.

February 21st

- President Hoover sends message to Congress asking for passage of Bankruptcy, Glass Banking, and Hyde Farm Bills.

February 21st

- Glass refuses post in Cabinet.

February 22nd

- At President Hoover's request Secretary Mills meets Woodin and proposes measures to stop panic. Woodin replies his instructions are to take no action until after March 4th.

February 22nd

- President Hoover asks the advice of Federal Reserve Board. They reply that there is no need for action.

February 24th

- Governor Ritchie declares bank holiday in Maryland.

February 24th

- Banking difficulties in Ohio.

February 28th

- President Hoover again addresses Roosevelt for cooperation.

February 28th

- President Hoover again asks advice of Federal Reserve Board.

March 1st

- President Hoover again directs Secretary Mills to see Woodin and urge action. Mills say Woodin, who stated he had no plan and had instructions not to agree to anything.

March 2nd

- Federal Reserve Board writes to President Hoover that they have nothing to propose.

March 2nd

- Senator Glass agreed to request Roosevelt's cooperation to pass the Banking Bill. Roosevelt refused.

March 2nd

- President proposed to Roosevelt to issue proclamation to stop hoarding and control foreign exchange. Roosevelt refused.

March 3rd

- Congress rejects President Hoover's budget proposal to reduce veterans allowances by $130,000,000. President pocket vetoes the Veterans Bill.

March 4th

- President points out that Congress has failed by $160,000,000 to accept his economy program.

To the American public, it seemed that President Hoover did not have any faith in economic conditions. Optimistic statements about the economy by President Hoover began thinning out after 1930. Hopeful statements were instead replaced by complicated statements about economic conditions and unfulfilled promises. Americans were losing even more hope in economic conditions. His name became associated with economic despair as the shanty towns occupied by the homeless became known as "Hoovervilles"[6]. Instead of seeing the president as a leader who could help the American economy recover, Hoover became the punch line of jokes about the poor economic conditions (Barber 1985).

Herbert Hoover had a very simple upbringing in a devout Quaker family. This upbringing provided him a strong basis of a series of values: thrift, hard work, humility, a strict morality, seriousness, and personal responsibility" and "absolutism" in his belief—right or wrong (Barber 1985). Perhaps, these values made him feel as though government intervention into economic conditions was not necessary since individuals should be personally responsible for their economic positions in life.

Everything Hoover accomplished in life was the result of his hard work and personal sacrifice. Hoover lived a blue-collar life style and was not born into a privileged

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[6] Also "Hoover blankets" (newspapers wrapped around for warmth), "Hoover wagons" (broken down cars hauled by mules), "Hoover flags" (empty pockets turned inside out), and "Hoover hogs" (jackrabbits)

lifestyle. Born on August 10, 1874 in West Branch, Iowa, Herbert was the second of three children for Jesse Hoover, a blacksmith and farm implement salesman, and his seminary educated mother Huldath. His father died when he was six and his mother when he was eight. After their deaths, he lived with various family members until he attended Stanford University. Generally as he was shuffled to various family members, he was expected to work to provide for himself. Hoover worked hard to make himself a successful man. As a student at Stanford, he was known as a successful business manager although he majored in engineering (Barber 1985). Hoover did not really have a sense of a normal upbringing or stability in his childhood. He believed in the hard work of the individual.

Hoover grew up largely relying on himself, and that is how he made his decisions. He achieved success in life thanks to his own hard work. Details guided his decisions but based on his own interpretation of the facts. It was hard for another to convince him of something other than what he strongly believed in (Barber 1985). Hoover's Depression era policies were guided by his own beliefs. Too much government intervention in the economy would interfere with President Hoover's beliefs in self-reliance and individuality. His advisers devised the plan that Roosevelt would implement but since Hoover could not implement the plan under the way he believed best, which was with Roosevelt's cooperation, he ended up not enacting any policies to aid the banking crisis. This self-made man was worried about giving too much aid to the public.

The Intricacies of Franklin Roosevelt

Franklin Roosevelt had no interest in economic policy, yet his presidency changed the way the executive approached economic policy. His presidency enacted more domestic economic policy measures than any administration before him. Roosevelt did not care for abstract or theoretical debates and preferred to approach things in a scientific or quantitative manner. Economist John Maynard Keynes expressed an extreme disappointment in Roosevelt's complete lack of interest in economic theory (Rubenzer and Faschingbauer 2004). Roosevelt was not familiar with the economic struggles of the common man having not experienced it and did not have a strong background in economics. But his economic policies early in his administration were deemed a success and Hoover's policies deemed a failure because of personal differences that drove their approach to the problem.

According to Supreme Court Justice, Oliver Wendell Homes, Franklin Roosevelt had a "second-class intellect" and a "first-class temperament". An exceptional memory and ability to synthesize a large body of diverse information were the strongest of Roosevelt's intellectual abilities. A very beneficial trait which assisted him as a leader during the Great Depression was his capacity to ignore disagreeable realities (Greenstein 2000). Roosevelt was an extremely optimistic and extroverted individual. According to rankings of thirteen psychologists, Roosevelt ranked highest positive emotions and assertiveness and lowest for straightforwardness and dutifulness. Roosevelt was extremely well suited for the office of the presidency. This extroverted assertiveness was quite the opposite of the introverted Hoover who asked for but never received cooperation from other actors and was deemed by the same psychologist as not well suited for the presidency. Psychologists consider Roosevelt as the perfect template for the modern presidency (Rubenzer and Faschingbauer 2004).

Table Four: Roosevelt's Personality Traits[7]

High	*Percentile*	*Low*	*Percentile*
Positive Emotions	98.7	Straightforwardness	0.5
Assertiveness	98.6	Dutifulness	4
Openness to Feelings	97	Vulnerability	6
Gregariousness	96	Modesty	7
Achievement Striving	92	Depression	10
Tender-Mindedness	90		
Activity	86		

Understanding the type of person President Roosevelt was is essential in understanding both the actions he undertook and any resulting success. Longtime associates of Roosevelt describe him as a complex person whose persona was difficult to penetrate (Lammers 2000). According to Barber's typology of presidential character, Franklin Roosevelt exhibits active-positive traits (Barber 1985). Active-positive presidents are self-confident and optimistic. They enjoy the exercise of power and create opportunities for action. These personality traits would certainly imply that President Roosevelt would take a very proactive stance against the economic problems.

[7] (Rubenzer and Faschingbauer 2004)

Table Four contains a survey of twelve psychologist who analyzed the persona traits of Franklin Roosevelt. The areas he scored highly in do seem do correlate positively with Barber's active-positive assessment of Roosevelt and the perception of the traits that dominated his persona.

Charm and political skill were overflowing for President Roosevelt. He seemed to have a certain instinct for politics that allowed him to be an excellent judge of timing and using any of the tools available to him to achieve his goals. Presidential analyst and historian Arthur Schlesinger, Jr. describes Roosevelt's political skills as:

> "He evidently felt that clear-cut administrative decisions would work only if they expressed equally clear-cut realities of administrative competence and vigor. If they did not, if the balance of administrative power would not sustain the decision, then decision would only compound confusion and discredit government. And the actualities of administrative power were to be discovered, not by writing-- or reading-- Executive orders, but by apprehending through intuition a vast constellation of political forces. His complex administrative sensibility, infinitely subtle and sensitive, was forever weighing questions of personal force, of political timing, of congressional concern, of partisan benefit, of public interest. Situations had to be permitted to develop, to crystallize, to clarify; the competing forces had to vindicate themselves in the actual pull and tug of conflict; public opinion had to face the question, consider it, pronounce upon it—only then, at the long, frazzled end, would the President's intuitions consolidate and precipitate a result (Schlesinger 1957)."

Certainly, these qualities explain Roosevelt's unwillingness to work with Hoover at the end of his administration. Roosevelt felt it was politically necessary for him to let the crisis grow in order to pave the way for any action he wanted to take.

There are certain traits of FDR that historians and scholars agreed. A 1932 newspaper article described Roosevelt as "a pleasant man, who without any important qualifications for office, would very much like to be president." Many historians suggest that Roosevelt's polio and confinement to a wheelchair in his personal life enhanced his leadership capabilities as president by strengthening his resolve (Lammers 2000). Roosevelt's optimism never faltered.

Roosevelt wanted to be the center of attention and the leader in all activities in which he participated. He was energetic, optimistic, and enthusiastic with a friendly and welcoming nature towards others. His self-confidence seemed to know no bounds. On top of all these qualities was a mix of ruthless political savvy. Roosevelt preferred to get information verbally or through newspapers rather than reading lengthy reports or books (Greenstein 2000; Lammers 2000). He did not wish to be trapped in the intricate policy details of an issue.

When scholars assess his presidency, Roosevelt's performance generally receives very high marks and most assessments rank him as one of the top five presidents. Based on five different categories of performance, polls of more than 719 historians and political scientists placed Roosevelt as second in presidential performance behind only Abraham Lincoln. Roosevelt was ranked highest for leadership qualities and political skill. He ranked second for accomplishments/crisis management and appointments. The only category where he was not one of the top two presidents was in character/integrity, where he placed fifteenth (Ridings 1997; Murray 1994).

Roosevelt also had unique personal characteristics that made him different than other Presidents. Considering his background, it is ironic that Franklin Roosevelt would become the leader of a powerful coalition of blue-collar workers, labor unions, and ethnic minorities. His upbringing can only be described as privileged. Roosevelt's privileged upbringing made him an interesting figure to be the leader of hope during the Great Depression. He was born into an upper-class family in New York in 1882. Unlike the people he would come to be a beacon of hope for, he lived on an estate, traveled through most of Europe, and spent summers in the family's summer home. As a young man, Roosevelt's distant cousin, Theodore Roosevelt, would hold the office of the presidency from 1901 until 1909. Educated by elite tutors and an exclusive prep school, Franklin Roosevelt attended college at Harvard University and law school at Columbia University (Greenstein 2000; Lammers 2000).

On the surface, it would seem his background destined him for an elite snobbery with a grand disconnect from the average American. But his parents and early education instilled the importance of empathy for others and service to mankind (Greenstein 2000). These beliefs helped guide his career choices and the actions he would take as president.

Unhappy with the practice of law, Roosevelt aimed for a career mimicking that of his cousin, Theodore. At the age of 29, he secured a seat in the New York Senate. A little over three years later, he gained an appointment in President Woodrow Wilson's administration, as Assistant Secretary of the Navy, which gave him years of experience in how the Federal bureaucracy worked (Lammers 2000).

Roosevelt was the Vice Presidential nominee on the unsuccessful Democratic ticket of James Cox during the 1920 Presidential election. Although the public saw him as an optimistic and strong man, Roosevelt's private secret was his confinement to a wheelchair after being stricken by polio at the age of 39. Roosevelt contracted polio while vacationing at his family's summer home in 1921. His personal struggles with polio and his handicap would further develop this character, enhancing his optimism, drive, and empathic nature. With the support of his wife, Eleanor, whom he married in 1905, Franklin won the governorship of New York by only 25,000 votes and served in that capacity from 1929 to 1933 (Greenstein 2000; Lammers 2000). This experience put him on a political path to the White House.

Franklin Roosevelt was not an economic policy expert though he did have some familiarity with it. What Roosevelt lacked in economic policy aptitude, he more than made up for with his political, leadership, and oratory skills. His success depended on sound advisors and it was extremely important for him to surround himself with strong and skilled economic and financial advisors (Alter 2006). Knowing his administrative preferences, Roosevelt did his best to put the right people in the right places. One means of doing that was keeping the people most experienced with the issue, those from the Hoover administration, in key positions.

Hoover versus Roosevelt

The economic problems associated with the Great Depression began long before Roosevelt took office. His approach to solving the problem was different than his predecessor Herbert Hoover's approach despite relying on some of the same advisors. Roosevelt implemented the plan the Hoover administration created. Unlike Roosevelt, Hoover believed in his economic policies and was not willing to compromise with Congress. President Hoover stood by his principles despite any criticisms (Barber 1985).

As a timeline of the banking collapse created by the Hoover administration shows, President Hoover attempted to monitor all economic conditions and focused attention on mandatory intervention issues, such as the budget. His monitoring of the economy and unwilling to change that stance in the face of adversity demonstrates Hoover exercising a non-interventionist approach regarding the banking crisis in his final months in office. There were simply too many barriers for Hoover to take meaningful action in relation to the growing banking crisis. Hoover steadfastly supported the old tenets of executive economic policy making and found little cooperation from Congress or the bureaucracy. There were simply too many barriers in his final months in office to address all of the economic issues he targeted. Hoover did not face the limitations on the executive or confront the need to use political tools on targeted issues to achieve results as president.

Roosevelt conceptualized the issue differently; and took different actions when it came to executive orders, dealing with Congress, and managing the economic bureaucracy. As President, Roosevelt designed and enacted many economic policies without a strict deference to his party, Congress, or even the Courts for that matter. Roosevelt's actions to end the Great Depression altered the role of the executive in economic situations (Byrnes 1997). While his actions alone may not have ended the Great Depression, Roosevelt certainly made strides to make Americans feel more confident that the government was taking action to address the situation.

Since the economic crisis got him into office, Roosevelt immediately began working to resolve the crisis by focusing on the banking system. Economic matters, however, were not Roosevelt's strength because he lacked both the aptitude and the interest in the minute details of economic policy. He preferred the more personal side of policies and politics where he excelled. Sadly, many that had served under Hoover believed he had the mental aptitude to deal with the economy but not the leadership or oratory skills to make economic policy happen (Alter 2006).

President Hoover lacked President Roosevelt's political skills and the confidence needed to achieve results. There were barriers to enacting banking related policies, such as lack of cooperation from Congress. Hoover sought cooperation of Congress, President-elect Roosevelt, and federal agencies to enact banking policies but when cooperation did not follow, he failed to enact policies. On the other hand, Roosevelt decided not to cooperate to provide himself with a better operating environment and gained the support of the public. Additionally, Roosevelt's political maneuvering with Congress serves as a perfect example for the executive branch to follow.

The newly minted President Roosevelt faced the greatest challenge since Abraham Lincoln's election and the Southern succession (Lammers 2000). But Hoover's and Roosevelt's ideas of the solution to the economic problem were at opposite ends of the spectrum. Hoover believed the economic crisis was an international problem and the best hope for recovery was a return to the international gold standard; whereas, Roosevelt however, gave highest priority to domestic reforms (Leuchtenburg 1963).

Hoover also believed that it was not constitutionally in the powers of the president to take broad or far reaching measures to help the economy (Byrnes 1997). Hoover looked to Congress to take action on economic matters. Roosevelt, in contrast, believed that dramatic actions by the President were necessary. Other individuals had yet another view of the economic crisis. Economists believed the Great Depression resulted from the Wall Street crash, the Hawley-Smoot Act, other tariffs around the world, the gold standard, and deflationary central bank policies. The American people on the other hand cited the problems of the Great Depression as being unemployment, high prices, and failing banks (Hamby 2004). Finding a solution to appease the experts and the public was difficult.

The economic crisis only grew worse in the months immediately following Roosevelt's election, which made it easier for Roosevelt to enact swift policies. People were ready to "make sacrifices to a common necessity and accept realities as we would have not done three months ago," according to an article in the *Wall Street Journal* on Roosevelt's inauguration day (McElvaine 1984). The banking crisis became the most direct means of addressing this problem.

The Hoover administration had previously taken action to fight the economic situation. However, these actions proved to be too little and Hoover lacked the support of the people and other institutions of government, primarily Congress, needed to deal with the economy. The legislative branch was not equipped to address the economic problems and the lame duck session of Congress lasted from December 1932 until February 1933. During this time, the economic crisis was growing but Congress failed to produce a single important piece of economic legislation (Leuchtenburg 1963).

Hoover also failed to support his economic advisors on key measures. Treasury Secretary Ogden Mills developed substantial plans for closing banks and reopening sound ones but the plan would not work without being able to increase the amount of currency (McJimsey 2000). On late March 3, 1932 the Federal Reserve voted to urge Hoover to close the banks for a three-day holiday (Alter 2006). However, the issue of increasing the amount of currency was never enacted by Hoover's administration. His uncertainty on the policy and inability to achieve cooperation from other actors led to too much delay.

This was a problem that the Hoover administration would not resolve, but the next administration used this groundwork to take swift action on the economy. It was not in the best interests of Roosevelt to work with Hoover if he wanted his own policies to pass. Hoover administration officials and officials nominated by Roosevelt met regularly on the days before Roosevelt's inauguration. Hoover administration officials began work on the Emergency Banking Act during the last days in office, which would become one of the first actions taken by the new Roosevelt administration. Neither party could agree to issue a proclamation closing banks before inauguration day (Alter 2006). Hoover and Roosevelt did not cooperate on the issue in enacting policy, primarily because as Moley, a key economic adviser for Roosevelt, stated, Roosevelt knew the Hoover administration was in charge until inauguration day and he was sworn into office (Powell 2003).

Why did Hoover fail to act when the first thing Roosevelt did was act? Hoover's advisors had recommended a similar course of action as to what Roosevelt took; yet Hoover failed to act. Hoover's failure to act is based on his personal qualities. Hoover had difficulties convincing people to take action because of his dry speaking style, which was one of his greatest weaknesses (Ridings 1997). He lacked the rhetorical powers of persuasion. Based on various Hoover administration papers written during their final months in office, President Hoover was willing to take action only with the cooperation of incoming President Roosevelt, who knew cooperation was not in his best interest. A stunning electoral defeat and public complaints had further shaken the confidence of a man who did not have that much belief in his abilities. As a timeline of his final days in office indicates, President Hoover attempted to reach out to the incoming president for support but Roosevelt was unwilling to cooperate.

From a political standpoint, Roosevelt needed to let the situation simmer so he could take more decisive actions while his administration was in its prime. He politically positioned himself so he could best take action and was elected based on the premise he would take some sort of action to address the economy that his predecessor would not. Roosevelt took action because he saw the political consequences of not taking action and he had a different leadership style.

It is clear that one reason Roosevelt did not cooperate with Hoover prior to inauguration day was that he wanted to enter office and be able to take dramatic actions. The election of 1932 revolved around who was not the current president and who would take action to ease the Depression. Roosevelt had been elected to office with the primary duty of easing the effects of the Depression. It would have sent a weird signal to the public had Hoover enacted the policy and not Roosevelt. After winning the election because Hoover was not taking proper action on economic policy, it would send the wrong message to the American public to work with the man whose economic policies you publically attacked in the election to implement an economic policy. The premise of the election was that Hoover did not have the right policies to get the American public out of the depression. The public had lost faith in Hoover's ability to confront the economic problems facing the nation and the policy would not have had the same effect had Hoover enacted it.

It seems that Hoover failed because he was simply the wrong man for the times. Hoover was not a man capable of providing strong executive leadership. His personality kept him drawn to unsuccessful policies and his skills as an orator prevented him from reaching the public with his message. As John Nance Garner, Roosevelt's Vice President from 1933 to 1941 put it:

> "I have never reflected on the personal character or integrity of Herbert Hoover. I have never doubted his probity or his patriotism. In many ways he was superbly equipped for the presidency. If he had been president in 1921 or 1937 he might have ranked with the great presidents" (Ridings 1997).

Hoover did not have the proper personal characteristics to address a crisis. Fortunately for the nation, Roosevelt had both the right personality and the skills to face the difficult times. Roosevelt had better personal characteristics and leadership abilities for the times. Had Roosevelt been president in a milder time, it is unlikely he would be considered a presidential great.

Disagreements over the banking crisis severed the relationship between outgoing President Hoover and incoming President Roosevelt. There was much tension between the two on inauguration day, which didn't publically boil over until a few years later. Hoover was angered that not only did he not receive cooperation from Roosevelt, but that he received so much blame for the crisis itself. Hoover did not support Roosevelt's closing of the banks, publicly attacking him in 1935 saying:

> "It was the most political and most unnecessary bank panic in all our history. It could have been prevented. It could have been cured by simple cooperation. Closing the banks was a sign that the country was in a ditch. It was the political equivalent of burning the Reichstag[8] to create an emergency" (Alter 2006).

Due to his personal characteristics, Hoover was a man who steadfastly stood by his convictions and beliefs. Hoover was not willing to use rhetoric to change economic conditions or direct economic policy during his administration (Barber 1985). He did not create the Great Depression but preferred more conservative, non-interventionist policies. In order to change this viewpoint, he sought the cooperation of the incoming executive but did not receive it preventing him from acting. The nation experienced a unique depression and the worst economic conditions seen in many generations. The American public was ready for dramatic change to address a growing crisis.

Roosevelt's Rhetoric on the Economy: Leadership through Persuasion

Roosevelt's skills as a communicator left a lasting legacy. His eloquent speeches helped restore faith to the American public in regards to the economy. His presidential addresses helped define the agenda for his administration (Greenstein 2000).

Executive leadership can contribute to economic recovery. Leadership in this case began on inauguration day. FDR returned hope to the American people (Ridings 1997). He was able to do this through his leadership capabilities. His first inaugural

[8] A reference to actions by the Nazis.

address projected hope because it promised leadership with bold and decisive actions (Goodwin 1999). But it promised little in regards to policy specifics.

The banking crisis received significant attention in the inaugural address. Roosevelt started his address with the assurance that the nation "will endure as it has endured, will revive and prosper" and that it was his "firm belief" that "the only thing we have to fear is fear itself —nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance" (McJimsey 2000; McElvaine 1984). The inaugural address reflected the opinion Roosevelt had of bankers when he said: "The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths" (Leuchtenburg 1963). The statement was extremely eloquent but did not contain policy specific information. But the public was not interested in policy specifics at that time.

An important component of his economic policy regarding the banking system was the ability to use the power to persuade others. The American people needed to have faith in the banking system in order to use it. Franklin Roosevelt worked to restore hope and courage to the American people (Leuchtenburg 1963). Roosevelt went to the radio airwaves with his fireside chats to convince the public the banks were safe (McElvaine 1984). A day before a number of banks were scheduled to reopen following the banking holiday, Roosevelt delivered the first of his famous fireside chats (Powell 2003). The optimistic and promising rhetoric helped ease the concerns of the American people.

Wording was important in the policy actions Roosevelt choose to take. FDR applied the banking holiday, as it was called during the banking panics of World War I, to the entire nation; whereas the Hoover administration wished to call the act a moratorium (Alter 2006). The term “holiday” was a popular euphuism for the American public, helping to raise spirits and signify the government was willing to act (Leuchtenburg 1963).

Roosevelt projected the image of a government, particularly an executive branch, ready to take action to solve the economic crisis. He stated his intention to solve the economic crisis within the bounds of his Constitutional power but with certain caveats. As President Roosevelt put it, “I shall not evade the clear course of duty that will then confront me. I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe.” Bold leadership and decisive action were promised to the American people in Roosevelt’s inaugural address (McJimsey 2000; Roosevelt 1938).

Administrative and Statutory Tools

Part of the approach to dealing with the banking system was dependent upon how Roosevelt and his advisors viewed the situation. Presidents have the ability to fight economic crisis just as if it were a foreign policy crisis thanks to the precedent created during the Roosevelt administration. Roosevelt and the New Dealers saw the Great Depression as an economic collapse and a political breakdown. State and local governments had attempted to address the crisis but failed (Leuchtenburg 1963). Without federal action, the nation would not be able to fight a problem with international linkages that was impacting the entire nation (Leuchtenburg 1963).

Roosevelt approached the economic crisis as if he were a commander in chief in war. He was the executive in need of taking swift, unilateral executive action in order to prevent disaster, in this case economic collapse. The start of the Roosevelt administration saw a string of changes and executive orders. Before issuing these orders, Roosevelt had made certain that he had the authority to take such actions. He had used the 1917 Trading with the Enemy Act to close the banks under the circumstances. This act did not directly give this authority to the president. Instead, it was intended to allow the president to cease trade with nations hostile to the United States as World War I was an international concern.

He needed an Attorney General willing to interpret this statute as giving the president the authority to close the banks and expand the scope of presidential power (McJimsey 2000). This provided the president the power to declare an indefinite emergency, expanding the scope of executive authority to deal with the emergency and remove the requirement that the president report all actions on this matter to Congress. Future presidents would also cite this emergency power provision to address an economic crisis.

Roosevelt's Bureaucratic Leadership: Selecting Key Advisers

It was very important whom Roosevelt surrounded himself with. His advisors were key figures in addressing the crisis and these experts created the plan to address the economic crisis. These advisers also provided the statutory interpretation to allow him to act. His advisers in the Treasury Department created the plan that addressed the banking crisis. Keeping holdovers from the Hoover administration in important policy making roles left the experts with the most experience with the problem in place. It is doubtful that Roosevelt would have succeeded without good advisers.

Roosevelt surrounded himself with a council of economic advisors known as the "Brain Trust", who early in 1932 began work to devise a plan to solve the problems of the Great Depression (Hamby 2004; Leuchtenburg 1963). The three men who lead the Brain Trust were Raymond Moley, Adolf A. Berele, and Rexford Tugwell, all of whom were professors at Columbia University, but only Tugwell was a professional economist. The plan created to deal with the economic problems of the country became known as the New Deal. The New Deal meant federal guidance and coordination of the economy (Hamby 2004).

However, members of the Brain Trust did not offer one unified opinion of how to address the banking crisis. For instance, the Brain Trust agreed on government cooperation with business to fix economic problems but they each had differing definitions as to what cooperation mean. Moley relied on business to initiate cooperation with the government. Berele believed that the government should use rhetoric to persuade business to cooperate. Tugwell believed the government should manage the economy and business would cede to that (Leuchtenburg 1963).

Nevertheless, all three members of the Brain Trust agreed they could not trust bankers and felt the banking industry needed government regulation to end abuses (Leuchtenburg 1963). They were divided on how that regulation would happen but Roosevelt would solve those battles. One proposal that did not gain Roosevelt's support regarding banking regulation was Tugwell's plan to put all banks in post offices (Alter 2006).

Roosevelt's administrative style made the Brain Trust what it was and stressed the importance of a President's administrative capabilities. His strategy was to appoint individuals who didn't always agree so he could elicit different opinions on the issues. Acting on broad executive power authorizations, he sought actions which would leave the executive with broad administrative power (Lammers 2000). Still, the people Roosevelt put in key administrative positions made all the difference.

As a leader, Roosevelt adhered to the "competitive theory of administration". This approach kept the decision-making power in his hands and maximized the information he received. Roosevelt was elusive in directly stating what he wanted or his intentions and had a tendency to play aides off of one another. In the long run, however, these practices created rivalries and lead to poor morale (Schlesinger 1957).

Raymond Moley was Roosevelt's closest advisor during his first hundred days in office. He was a part of what became known as a two-man "bedside cabinet", who along with budget director Lewis Douglas, met with Roosevelt each morning. Moley also served as Roosevelt's chief speechwriter during the 1932 campaign. His focus was on ideas that would work and less on the ideology behind those ideas. As one of FDR's key advisors, he wrote most of FDR's speeches and congressional addresses, drafted key bills, and recruited other talent for the administration (Cohen 2009).

Identifying key experts and developing policy proposals were Moley's greatest strengths. It was Moley who identified and supported the idea of keeping Hoover administration officials involved in the banking crisis after Roosevelt's inauguration since they were very capable and had the most experience dealing with the problem. Yet later during the Roosevelt administration when he fell out of favor with Roosevelt, Moley became a staunch critic of much of the New Deal legislation (Lammers 2000).

To ensure he had the executive authority to take the actions he did, Roosevelt needed to select an Attorney General with a favorable interpretation of executive power. His first choice for Attorney General, Thomas Walsh, was willing to use the 1917 Trading with the Enemy Act to allow for bank closures. However, he passed away on March 2, 1933 on the way to the inauguration (McJimsey 2000).

Homer Cummings, Governor General of the Philippines, was then selected for this position just before inauguration. He immediately rendered a legal opinion allowing the President to use the statute to close the banks. Moley and Treasury Secretary Wooden briefed Roosevelt the morning of March 4 and Roosevelt decided to invoke the 1917 Trading with the Enemy Act to close banks and call Congress into special session to enact emergency banking legislation (Alter 2006).

Roosevelt did change the face of the economic bureaucracy, but one of the main complaints about President Roosevelt is that he was a poor administrator. He procrastinated about decisions, had difficulty firing incompetent aides, and gave overlapping assignments in the creation of a myriad of bureaucratic agencies. This shortcoming did lead to creativity and a means of debating issues. Highly skilled individuals became interested in working in Washington, DC. For the first time, the federal government was becoming an institution the American people directly experienced (Leuchtenburg 1963). The actions Roosevelt took to change the economic bureaucracy changed both the bureaucratic role and the way the American people viewed their government.

Standards of Evaluation

Hoover selected a non-intervention strategy to address a growing economic problem. Instead, his inaction and seemingly lack of concern on the economy cost him the upcoming election. The non-intervention approach is the most frequently invoked policy. While it seems a passive policy, it requires constant monitoring of the conditions and the ability to not waver in the face of criticisms and calls to take action. Most items that reach the desk of the president regarding the economy provide information about the economy but do not contain any plans for policy actions. Most presidents monitor the financial markets without ever intervening (Rose 1985). Many do so based on their beliefs on operation of the economy or the proper role of the federal government in the free market.

Contrary to Hoover, President Roosevelt's action represented reactive intervention (Rose 1985). President Roosevelt, seeking to create the perfect political situation for himself, decided not to work with the outgoing Hoover administration before his inauguration. This allowed President Roosevelt to come into office and assume broad latitude in the use of executive power under the public pressure for the government to take some type of action to address the growing economic crisis. The target of the banking industry was identified by various state governments and the Hoover administration before Roosevelt came to office. Roosevelt just used the powers available to him as president to take action at the federal level. The policy needed to address the problem was created but not implemented by the previous administration. It needed to quickly address a problem many months in the making. Others devised the plan, but had not reached the point of implementing intervention at the federal level.

Context of the Executive Branch in American Politics

One reason the banking crisis reached the point that executive action became necessary was that there were few institutions of government equipped to handle this problem. Congress had already shown they could not handle the situation. It was also not an area for the judicial branch to be involved. The federal bureaucracy was not capable. In fact, there was little economic bureaucracy at the time.

There was not a formal bureaucratic structure capable of addressing the banking crisis. Legislation had created the Federal Reserve Bank in 1913, but it was less than twenty years old when the Great Depression began. Essentially, it was an advisory body with little direct authority (Alter 2006). The Federal Reserve System was a conglomerate of regional banks and the New York regional bank exercised the greatest influence during the 1930s. The chairman of the Federal Reserve had little influence over the economy and played little role in control over interest rates (Hamby 2004). Without leadership on solving economic problems from Congress, the courts or a powerful bureaucracy, a nation in need turned to its new executive for aid.

Time within the Presidential Administration and Electoral Cycle

President Hoover was at the end of his first term in office with sagging approval ratings. He lacked the backing of the public and ability to cooperate with Congress to enact his bank closure policy. From a personal perspective, he also lacked conviction and a strong belief in the policy. Individual characteristics, such as a lack of confidence and a less cooperative nature, made creating a successful economic policy to confront the banking crisis impossible.

On the contrary, President Roosevelt came into office to confront an economic crisis. Economic problems that began in the previous administration created a good electoral environment for the opposing party. Once in office receive, presidents within the first hundred days of their administration receive the greatest level of support in confronting an economic crisis. President Roosevelt was operating at a time within his administration that was very favorable to him and allowed him to enact a plan to confront the banking crisis that was actually created by the previous administration. Bureaucratic holdovers from the Hoover administration helped Roosevelt implement the bank closure policy.

Economic indicators at the start of the Roosevelt administration were bad and only getting worse. The public wanted someone to act to ensure the situation would not get worse and begin improving. Government seemed it could provide the answer to the problem in this case and it was the executive who had the tools necessary to provide such action.

The threshold for what a crisis is in this situation is very low. Primarily, it is dominated by the electorate. If the economy is doing poorly, it can become the primary issue of an election campaign, especially if there are not other major issues to dominate the agenda. The president elected will be expected to take bold action to immediately address an economic crisis. The president needs to be able to pull the nation out of the recession or depression it is facing and secure economic growth and expansion.

Facing this overwhelming call to action, presidents will have the greatest level of support at this time. Presidents will address their call to action against the economic crisis during their first tool available to them as president, the inaugural address where confronting poor economic conditions will take center stage, giving Americans a sense of hope that their economic woes will soon be solved. Quick action is expected; therefore, presidents can use tools such as executive orders for a quick response. Presidents will have the easiest time working with Congress at this time and passing pieces of economic legislation key to their plans to address the economic crisis.

Presidents in their first hundred days are still in the learning period of their administration. Presidents within their first hundred days in office and confronting an economic crisis are referred to here as change oriented economic policy. Economic policies take time to enact. Outgoing presidents by this point have taken action or developed policies to address an economic crisis. However, these presidents lacked the time and sometimes were bound by lame duck constraints to fully enact the policy. Therefore, change oriented presidents are often building upon the policies of the prior administration. The new administration has greater abilities to swiftly enact policies they see fit.

The President and Congress: Exercising Chief Legislator Powers

One of the greatest examples of Roosevelt using his political skill stem from his leadership of Congress during a string of legislation created during the Hundred Days. President Roosevelt convened Congress to take emergency action on his banking legislation and he found a legislature ready to fully support anything the executive suggested. On the day they were called into emergency session, they passed legislation to support President Roosevelt's banking policies without even reading the text of the bill (Greenstein 2000).

Congress allowed the executive to take center stage in the economic crisis (McKenna 2002). Congress treated the banking measures like actions taken by the executive during World War I. Speaker of the House Henry Thomas Rainey even likened the economic crisis to World War I saying, "Today we are engaged in another war, more serious even in its character and presenting greater dangers to the Republic" (Leuchtenburg 1963). The final draft of the Emergency Banking Bill was created by the Roosevelt administration only a half hour before the Congressional special session began (Hamby 2004). It gained support and passage without even being read. Both chambers of Congress passed the Emergency Banking Bill without study or debate and

Roosevelt signed the bill into law only hours after it was introduced in Congress (McElvaine 1984). On March 9, 1933, the Emergency Banking Act became law.

Months later, Congress passed additional legislation to further support the Emergency Banking Act under the leadership of President Roosevelt. This legislation, known as the Banking Act of 1933 and the Glass-Stegall Act, was passed in June 1933 and contained many provisions in response to the banking crisis. The Federal Deposit Insurance Corporation was established by this act to guarantee bank deposits up to a certain amount (Powell 2003).[9] It allowed for the continued closure of banks and allowed the federal government to determine which banks would reopen. The Reconstruction Finance Corporation was also allowed to purchase preferred stock from fundamentally sound banks to help them raise capital (Hamby 2004).

This new law also contained many provisions important to executive power and the institutions that controlled economic bureaucracy. The Emergency Banking Act amended the Trading with the Enemy Act to make it applicable “during time of war or during any other period of national emergency declared by the president,” greatly expanding the scope of presidential power. This law also sanctioned an executive to act (Powell 2003). Presidents could now act in times of economic crisis as if it were a time of war.

Additionally, the Emergency Banking Act strengthened the power and duties of the bureaucracy. These changes meant that banks needed permission from the Treasury Secretary to do almost anything. The Act allowed the Comptroller of the

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[9] The Banking Act of 1935 established the FDIC on a permanent basis.

Currency the power to reorganize banks without going through established bankruptcy procedures. The government was also able to print as much money as it wanted without the backing of gold due to the Emergency Banking Act. This Act authorized the Federal Reserve Bank to lend money to banks against a wider range of assets (Powell 2003). All of the powers provided from this Act stemmed from executive action. As an article in Fortune magazine proclaimed in 1934, “Mr. Roosevelt seized the Federal Reserve without firing a shot” (Leuchtenburg 1963). The message to the people was that the government would protect the interests of the average depositor.

The President and the Courts

While the constitutionally of some of the actions taken by the administration with the New Deal were questioned, most people were confident the crisis would be over by the time the Supreme Court would be able to consider the actions. The circumstances of the economic situation called for unusual action, which appeared to justify the actions of the New Deal. This gamble seems to have paid off, because it took two years before the Supreme Court heard the first important New Deal test case (McKenna 2002). This would be followed by an executive and judicial battle to determine which branch of government maintained powers over the economy.

When all of these actions were taking place, the view of the executive branch was not that it was the center of economic policy. The President was not yet defined as being the Chief of the Economy. In the interests of preserving the balance of power as outlined in the Constitution, there were challenges to the economic policies of the

Roosevelt administration. A series of Supreme Court cases between January 1935 and January 1936 invalidated much of Roosevelt's New Deal legislation as an unconstitutional delegation of legislative powers to the executive and as the federal government overstepping their powers. One of the more famous of those cases, *Schechter Poultry Company v. United States* 295 U.S. 495 (1935), invalidated the National Industrial Recovery Act on the grounds that it improperly delegated legislative authority to the executive branch and attempted to regulate intrastate commerce (Jackson 2003; Irons 2000).

The judiciary can constrain executive action as demonstrated by these legal opinions. However, Roosevelt decided to present this decision to the American people and the "court" of public opinion. Roosevelt blasted the Supreme Court's decision at a press conference saying:

> "You see the implications of the decision. That is why I say it is one of the most important decisions ever rendered in this country. And the issue is not going to be a partisan issue for a minute. The issue is going to be whether we go one way or the other. Don't call it right or left—it is a question for national decision on a very important problem of Government. We are the only nation in the world that has not solved that problem. We thought we were solving it, and now it has been thrown right straight in our faces. We have been relegated to the horse-and-buggy definition of interstate commerce" (Jackson 2003).

Ultimately, Roosevelt devised the court-packing plan and a switch of opinion of one Supreme Court justice in regards to New Deal legislation changed the course of economic policy making (Irons 2000).[10] Subsequent decisions supported the executive's bold actions in economic policymaking.

FDR's Actions in the Crisis: Lessons Learned

Franklin Delano Roosevelt (FDR) defined presidential management of the economy for the modern era, bringing much prestige and power to the office and making the White House the focus of all government (Leuchtenburg 1963; Cronin and Hochman 1985). The president under the Franklin D. Roosevelt administration became the "Chief Economic Engineer" (Leuchtenburg 1963). Roosevelt was the architect for the role the president plays in managing the economy today. His presidency transformed the modern executive into what we have today. However, debate still exists over Roosevelt's leadership, the expansion of executive power during his administration, and his legacy (Lammers 2000).

Roosevelt came to power during arguably the worst major economic crisis ever to face the nation and became the only president to be elected to and serve more than two terms. The economic crisis became the focus of the 1932 presidential election, which revolved around who could provide the nation a plan and give them hope to escape the Great Depression. Roosevelt was president through some extremely tumultuous times in American history and leaves a long and defining legacy. From a case selection basis, the way Roosevelt handled the economic crisis is important

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[10] For important Supreme Court decisions regarding New Deal legislation, see Home Building & Loan Association v. Blaisdell (1934), Nebbia v. New York (1934), United States v. Butler (1936), *Carter v. Carter Coal Company* (1936), *Morehead v. Tipaldo* (1936), *West Coast Hotel v. Parrish* (1937), and *National Labor Relations Board v. Jones & Laughlin Steel Company* (1937)

because of the influence it has in guiding all subsequent presidential decision-making in economic crises.

Overall management of the economy as a primary policy responsibility of the President did not become the norm until the Great Depression. Presidents prior to this time focused exclusively on microeconomic policy and did little to change economic conditions. Greater regulation of the economy by the government became institutionalized after the Great Depression because Roosevelt had endorsed legislation that established or strengthened many independent regulatory agencies: the Federal Communications Commission (FCC), the Securities and Exchange Commission (SEC), the Federal Power Commission, the Civil Aeronautics Board (CAB), and the National Labor Relations Board (NLRB) (Pika 2008). By creating more bureaucratic agencies, the executive and legislative arms of economic management were extended.

It is also important to note how presidential action can impact social action. The dire economic conditions of the Great Depression made citizens very concerned and some felt the national way of government would fall, as it had in some European nations. In the early days of the Roosevelt administration, there were no constitutional amendments, no overthrow of the government, and no nationalization of banks or other key industries (Alter 2006). As Roosevelt discovered, the keys to economic relief were emergency spending and loan programs, which became tenants of future economic recovery programs (Pika 2008).

Since Roosevelt, some type of executive action is expected when it comes to management of the economy, particularly in response to a crisis. There are high expectations for presidential involvement in finding the solution to the problem. If no action is taken, do not expect a president to stay in office long or have much political success if they fail to address a failing economy. The public will not support inaction on economic policy when the economy is struggling.

President Roosevelt became a change oriented economic policy maker. Barack Obama is a recent example of another president who benefited from the public's desire for a change in economic policy. Roosevelt was put in office primarily to change the nation's economic policies. He won the election of 1932 because he wasn't Herbert Hoover. There was not a strong economic plan outlined before he came into office, but Roosevelt projected confidence and stressed that his economic policies would be different than those of Hoover. The people believed him and placed their faith in Roosevelt's economic policies. He was able to take dramatic executive actions because of the mandate for change. In this case, the executive acted first and Congress later acted to reinforce the president's actions.

Roosevelt became president at a time when the nation was in crisis. The previous administration had failed to address the banking crisis. A solution to the banking crisis required bold and decisive action. Americans needed a leader that could restore their hope and confidence in the banking system. Roosevelt delivered a powerful inaugural address indicating that the government would act quickly to address this crisis. The public supported their new president, and the support of the public is essential to a president when addressing a crisis of this magnitude.

However, rhetoric alone would not have been enough to solve this crisis. Roosevelt needed to follow through with the decisive actions he had promised. During his first days in office, he issued a series of executive orders to address the crisis and called Congress into session. The members of Congress, who failed to act on this crisis in the years before Roosevelt, swiftly supported his call to act. Congress passed the legislation he presented and followed up with another piece of legislation to address the crisis.

Success came easy to Roosevelt because of where he was in the electoral cycle. Roosevelt was elected to office primarily because the public disapproved greatly of the job the incumbent had done in addressing the economic crisis. This meant Roosevelt was working to resolve the banking crisis during the honeymoon phase of his presidency. The public and other institutions want to cooperate and support any new president during trying times and, as a result, fewer barriers to the goals the new presidents are attempting to reach. Roosevelt had the right personal characteristics and skills to take advantage of all of the tools available to him as president.

Table Five: Tools Used by the Roosevelt Administration

Type	Action
Barber's Character Typology	Active-Positive
Administrative Tools	Relied on the "Brain Trust" advisors
Statutory Tools	Expanded 1917 Trading with the Enemy Act
Standards of Evaluation	Reactive Intervention Strategy
Administration Year	First Year, specifically first hundred days
Legislative	-Inaction initially -Supported President with passage of the Emergency Banking Act
Bureaucracy	Relied on Treasury Secretary
Judicial	Future challenges to various New Deal legislation
State Government	-Many state governments preemptive federal government with same policy action
Political Party	Democrat in Executive and Legislative Branch

Chapter Four

Richard Nixon and the Wage and Price Controls of 1971

The Making of Economic Policy as an Election Nears: Creating Electoral Gain Policy

President Richard Nixon took an economic policy action that he fundamentally opposed and believed would not work. He took these actions to secure higher approval ratings and a victory in the upcoming presidential election. These actions were the result of Nixon's personal characteristics and his desire for a victory at any cost. Nixon's personality drove the actions that would define his presidency.

The legacy of the Nixon presidency is forever tied to the Watergate scandal. This scandal involved a break-in at the Democratic National Committee Offices in Washington DC and the subsequent cover-up of those events, alleged by the highest office holder in the nation. Psychologists note this incident and his ensuing political downfall was driven by Nixon’s paranoia, need to win at any cost, and approval seeking tendencies. It is not surprising that these personal characteristics would also drive Nixon to create an economic policy fundamentally at odds with his personal beliefs so that he could win an election and the approval of the American people who believed their president was taking leadership on the economy to prevent worsening conditions when he announced the Wage and Price Controls of 1971.

Nixon is the subject of many studies. While scholars tend to focus on the foreign policy of Richard Nixon and Watergate, the economy also became a major issue during the Nixon administration. Nixon happened to occupy the White House when the postwar boom was going permanently bust and the economy consumed more of his attention than any other domestic policy issue (Matusow 1998). In order to deal with the economic crisis, Nixon took actions counter to his philosophical views on both the economy and government intervention into economic conditions.

Nixon was not a man with much interest in economics. He preferred foreign policy, which he seemed to have a natural knack for. Nixon did realize the political importance of sound economic policy. Once the policy action was decided upon, Nixon left his Treasury Secretary with the tasks of determining the details. The public approved of President Nixon taking action and responded favorably.

What caused Nixon to change his mind? How did he decide to take such actions and how did he accomplish them? For the most part, President Nixon maintained a very conservative policy with regards to the economy, and relied on reducing federal spending to balance the budget. As a means to curb inflation though, Nixon took a very extraordinary measure when he enacted wage and price controls in August 1971 (Pika 2008). Richard Nixon, a man fundamentally opposed to government regulation of the economy, was responsible for more economic regulations than any other president since Franklin Roosevelt (Volkan 1997).

To understand why Nixon took such actions, it is important to see the personal traits, the people, and events that influenced him. Nixon's actions greatly impacted the public perception of the presidency, and altered the American public's opinion of the institution forever. He did shape many policies of twentieth century America but his epic downfall of the Watergate scandal often overshadows his contributions. The personal traits that lead to the Watergate scandal also contributed to the policy actions of the Nixon administration.

Richard Nixon and Rising Inflation

The nation had entered into a recession by 1969. This recession was the first recession since 1959 and happened in a year when the nation enjoyed its only budget surplus between 1965 and 1998. The recession that Nixon dealt with as president was the most serious economic problem to face the nation since the Great Depression. It was dominated by stagflation, rising unemployment, and rising inflation. By 1970, Nixon became more concerned with unemployment as it climbed to more than six percent, which was its highest level in a decade. The unemployment rate was 3.5 percent when Nixon took office and it climbed to 5.6 percent by 1974. Inflation was around 5 percent when Nixon took office and climbed to 8.7 percent by 1974 (Small 1999).

Despite concerns about unemployment, it was inflation that became the focus of the fight against deteriorating economic conditions. The inflation rate was four percent in 1970 and edged higher in 1971. This figure was alarming at the time but economic conditions later in that same decade were much worse and would have made the four percent inflation rate seem mild. Congress granted Nixon authority to impose wage and price controls to help curb inflation with the belief that he would not use them, providing them with a political target to use for the upcoming 1972 presidential election. Despite their political calculations, President Nixon did impose wage and price controls on August 15, 1972. Both the business community and Wall Street responded well to that decision (Lammers 2000).

Other factors besides high levels of inflation also contributed to sinking economic conditions, such as the growth of the federal budget, growth of the national debt, and the growth of taxes as a share of gross domestic product (GDP). In fact, GDP during the Nixon administration grew at the slowest rate of any presidential administration between Harry S. Truman and George H.W. Bush. Of the nine presidents to occupy the office between 1945 and 1993, only the Carter and Bush administrations had worse economic records than Nixon did. Nixon had exogenous factors, such as the Vietnam War, that could not be controlled in a means of managing the economy. While economic conditions may have appeared poor in 1974, the American public did approve of the way the president was managing the economy, as evident by the 1972 election (Small 1999). Part of this success is due to the economic policy decisions made to curb inflation. Nixon's quick actions to curb inflation made it appear he was willing to be a leader in the fight against poor economic conditions.

Creating an Electoral Gain Policy: Implementation of a New Economic Policy

Some politicians believed that economic issues would kill the Nixon presidency, besides the fact that Nixon had only received 43 percent of the popular vote in 1968 (Lammers 2000). The belief was Nixon's inabilities and lack of interest in economic policy would lead to an electoral defeat in a reelection campaign. Nixon devoted his attention to fighting inflation rather than addressing unemployment, a decision that former President Dwight D. Eisenhower, for whom Nixon served as Vice President, predicted would result in a one-term Nixon presidency.

Privately, President Nixon shared the same opinion. According to a White House tape from July 26, 1971, Nixon stated in a conversation with Assistant to the President for International Economic Affairs Peter Peterson, "I've never seen anybody beaten on inflation in the United States. I've seen many people beaten on unemployment."[11] Key political advisers and the president determined it would take too long to see any effects of unemployment control measures.[12]

Nixon felt that “you can’t explain economics to the American people.” This sentiment often resulted in his concern about the popularity of a Congressional measure relating to economic matters, such as the Tax Reform Act of December 1969. He opposed this act but signed it into law after it was passed by Congress because it was a popular measure (Small 1999). Nixon had popularity in mind when he decided upon the Wage and Price Controls policy.[13]

The Republican ideology of economic conditions suggested that the executive should cut social programs and reduce the size of the government, while maintaining laissez-faire control over all other economic conditions. Richard Nixon fully realized the Republican Party’s desire to shy away from government regulation of the economy. Generally, Nixon supported the Republican ideology. However, Nixon saw a need to act

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[11] Nixon White House tape (546-2), July 26, 1971

[12] However, Nixon also had concerns about doing too much for unemployment. As Nixon voiced concerns to Connally on March 18, 1971, “If we can keep the unemployment, to be perfectly frank with you, John, I’d just like to get it down to around 5 ... I think to have unemployment around 3 it too low. The labor gets too damned cocky.”, White House tape (469-9)

[13] Yet, even when considering presenting the Wage and Price Controls to the American public, Nixon believed, "…try t o explain this thing you know, that's a hell of a hard thing to explain to people.", Nixon White House tape (7-112), August 12, 1971

on the economy as the national deficit rose to $25 billion, which was $10 billion more than the estimates under the Johnson administration (Kagan 1978; Volkan 1997). President Nixon wanted to keep his job.

One of the economic solutions the Nixon administration imposed was using price controls and freezing wages. Pursuant to the Economic Stabilization Act of 1970 passed by Congress, President Nixon imposed a ninety day freeze on all wage, prices, and rents in the United States by issuing an executive order (Kagan 1978). This solution shocked many people, including members of Congress and international allies, but seemed to delight the citizens (Volkan 1997). Prior to this action, Nixon publically and privately denounced such actions.

While he was not an economist, Nixon did not believe that wage and price controls ever worked from experience. Nixon worked with the wage and price controls during World War II. During a conversation with various White House advisers in February 1971, Nixon said:

> "On this wage price freeze, …I'm not about to do a damn thing…Here's my concern about the freeze...There is strong support for a wage board and wage-price controls and particularly from sources like Arthur Burns. ... The difficulty with wage-price controls and a wage board as you well know is that the God damned things will not work. They didn't work even at the end of World War II. They will never work in peacetime...I'm not going to have wage and price controls."[14]

What led Richard Nixon to seek such a liberal economic policy and take an action contrary to his personal beliefs on economic policy? Even as late as July 1971, President Nixon was still discussing concerns over Wage and Price Controls with his White House

[14] Nixon White House tape (455-3), February 22, 1971

advisers, even suggesting it was a means of bringing socialism to America.[15] When seeking an explanation to this question, it is common to look towards the gains which motivated the president to act. Essentially, Nixon abandoned his Republican and personal opinions in an attempt to avoid the electoral costs of inaction (Weatherford 1987).

According to a later conversation with White House advisers in February 1971 concerning the Wage and Price Controls, Nixon suggested the measure would only be a symbolic one and not impact the economy: "I know the reasons, you do it [wage and price controls] for cosmetic reasons good God! But this is too early for cosmetic reasons."[16] Nixon saw no real policy reasons for implementing the Wage and Price Controls. Rather, he saw them as something the American people would see as a good policy move and a bold action by their executive leadership. The timing of Nixon's grand symbolic gesture on inflationary policies just needed to be closer to the election.

Nixon maintained very liberal economic policies to secure very political results. While Nixon may not have personally approved of his liberal management of the economy in 1971, the public approved it and his reelection bid was secured in 1972 (Small 1999). As Nixon once said, "It is unfortunate that the politics of economics has come to dictate action more than the economics of economics" (Nixon 1978). How did Nixon come to make such a political economic policy decision?

Nixon and John Connally, Treasury Secretary, began discussing wage and price controls in early 1971, but Nixon wanted to exhaust all other measures first. Nixon

[15] Nixon White House tape (541-2), July 21, 1971
[16] Nixon White House tape (455-22), February 22, 1971

attempted to increase government spending in contrast to Republican ideology, promoted positive economic rhetoric, enticed Big Steel to roll back a price increase, and suspended the Davis-Bacon Act and its wage floors for federal contractors. However, these measures failed to produce the desired results. International events also impacted Nixon's approach to dealing with the economic conditions as the United States ran its first trade deficit since 1896 in the second quarter of 1971 (Small 1999).

Nixon gathered his entire economic team at Camp David on August 13, 1971. The result of this meeting was implementation of a policy of Wage and Price Controls, which Nixon did not philosophically agree with but believed were necessary for political reasons. He announced the New Economic Policy (NEP) on August 15, 1971, which implemented a ninety-day freeze on wages, prices, and profit margins under the authority Congress had granted the President.

According to Herbert Stein, Chairman of the Council of Economic Advisors during the Nixon administration, Nixon decided on the wage and price controls because: "He had a great longing for the dramatic gesture, for sure he found a perfect supporter in John Connally. He also tended to worry exceedingly about his reelection prospects and so to feel impeded to extreme measures to ensure his reelection." The Wage and Price Controls were popular with the public and worked in the short term, but had negative long-term effects (Anon. 1991).

Treasury Secretary John Connally and Richard Nixon had a vision of what the Wage and Price Controls would mean for the Nixon administration. Both were politicians and saw what the Wage and Price Controls meant from a political perspective. The following conversation in the White House between Nixon and Connally is indicative of their views:

> "Nixon: "It seems to me that on a rifle-shot basis, symbolic, you could get in and do those, and then basically then you do have an incomes policy. .... Just do some stuff for symbolism?"
> Connally: "It ought to show the people that you have both an awareness of the problems that (garbled) in both the domestic and international field and show secondly and most importantly that you have the courage to face up to it. That you take a position before you're forced to take a position."[17]

Nixon was looking for a symbolic gesture to take on economic policy to show the American people he could be a leader when economic conditions began suffering. The President had enough faith in Connally to believe that this policy would work and demonstrate Nixon's leadership on economic policy. Connally had a vision for what the American people would see in the Wage and Price Controls, telling the President:

> "To the average person in this country this wage and price freeze – to him means you mean business. You're gonna stop this inflation. You're gonna try to get control of this economy…If you take all of these actions…you're not going to have anybody…left out be critical of you."[18]

This vision was reflective of the public's view as Nixon received a boost in approval polls as people believed they had a leader willing to take action to fix economic problems. Nixon came to like the public support of the measure so well, he even told Federal Reserve Chairman Burns, "I'd like the freeze on right through the election."[19]

Politically, the Wage and Price controls were successful and led Nixon to an overwhelming victory in the 1972 presidential election. Despite short term success, the Wage and Price controls were not a good fix for the economy in the long run as many

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[17] Nixon White House tape (553-6), August 2, 1971
[18] Nixon White House tape (273-20), August 12, 1971
[19] Nixon White House tape (577-3), September 20, 1971

experts had predicted. Economic problems continued to plague the nation and Nixon attempted additional wage and price controls after his reelection. These controls failed to have the same success as did the 1971 controls (Drew 2007). However, the economic policies and actions during the Nixon administration left a lasting legacy. Nixon created an electoral gain policy and it was his personal characteristics that led him to the creation of such a policy.

Despite challenges, the public responded to these actions very positively, with 73 percent of those polled approving of the Wage and Price Controls. The stock market also seemed pleased, with the market posting its largest one-day increase to date on August 16, 1971, the day after the policy was announced. According to short term economic indicators, the wage and price freeze worked as evidenced by the economic numbers of October 1971. However, the administration had not planned what would happen after the ninety day freeze until close to the end of the freeze and few asked questions initially. The bureaucracy was left to find the missing pieces to the puzzle. The Council of Economic Advisors (CEA) devised a plan to ensure wage and prices did not rise too quickly by establishing guidelines on annual wage and price increases. Nixon's economic actions worked to jump-start the economy at a critical point just before his reelection (Small 1999).

However, there were many other players that were not pleased with his actions. Conservative economists were outraged at Nixon's decision to impose wage and price controls (Aitken 1993). Foreign allies in Europe and Japan were concerned with the measure, particularly since they were provided with little advanced warning of the impending measures. There was no coordination with foreign allies and key elements, such as the State Department, were not even aware these actions would be occurring before the policy was announced (Small 1999).

Even some economic policy making members of the government were unhappy with the policy. Many within the economic policy bureaucracy segment felt that their concerns were ignored when policy was based on the opinion of one trusted advisor and that there was little coordination in the actual policy itself (Weatherford 1987). The economy bounced back in the short term, but considerable economic problems were created which would surface shortly after the 1973 presidential election. Nixon deemed the action political necessary at the time. As he reflected in his memoirs, he knew it was politically necessary and immensely popular in the short run but wrong in the long run (Aitken 1993).

Characteristics of Electoral Gain Economic Policy

The state of the economy plays a major role in election outcomes. Presidents need the public to perceive a successful economic policy and a president capable of tacking major economic issues to lead the nation through tough times. Without faith in their ability to manage economic conditions, presidents are likely to have a tough time if they are seeking a reelection. Economic conditions prime the public for a president's partisan electoral message (Campbell 2004)

Therefore, if economic conditions are bad and a sitting president wishes to win his reelection bid, his best strategy is to ensure the public sees him as a capable economic manager. If a president faces an economic crisis during his third year in office, he will take bold action to address the economic crisis to ensure his electoral success. His fate in the upcoming election depends on his success. The president will have a difficult time working with Congress if a party different than the president's party controls the legislative branch. Party leaders in Congress realize the benefits that poor economic conditions can have for their party in the next election (Weatherford 1987). Since presidents have upcoming elections in mind, public opinion polls will help them determine when an issue is a crisis. If an overwhelming majority of the electorate sees an economic issue as a problem, it can be deemed a crisis by the president.

Presidents will be forced to take action to address the issue or they will not win their reelection bid. Failing to take bold action to address an economic crisis means presidents will not be successful incumbents. Inaction could be portrayed as a lack of leadership. However, the type of action taken might not always be best for the long term. The primary reason for taking action is to ensure electoral success; hence many policies will be developed with that time frame in mind. In that case, inaction might not mean a failure to lead. It may mean responsible economic leadership for the long term rather than a short term action to ensure a president's position.

The Context of Presidential Actions

The Intricacies of Richard Nixon

Nixon's personality and background made him the man and the president that he was, prompting him to enact the Wage and Price Controls of 1971. Specifically, his personality impacted his perception of the presidency, and of the duties and obligations of the office. It was his personality that prompted him to handle foreign and domestic issues in the manner that he did. He addressed many domestic policies much in the same manner as he addressed foreign policy, although as Wildawsky's two presidencies theory suggests, the public and Congress each demand a different approach. Ultimately, it was Nixon's unique personality that allowed him to make the strides he made in international affairs. How did this personality affect his decision making on economic policy?

The personality and psychology of Nixon fascinate many scholars. Biographic accounts suggest Nixon worked with a psychotherapist for many years without the public's knowledge. Still, biographers struggle to understand what made Richard Nixon tick (Morgan 2002). The Nixon personality is very different from the Roosevelt personality already explored.

Nixon's strong personality left a lasting legacy on the political scene. According to a number of psychologists, his personality can be most closely associated with Andrew Jackson and Lyndon B. Johnson. Like these men, Nixon was very disagreeable and not very open with his feelings or other individuals. He was not even-tempered and was exceptionally "bossy, demanding, domineering, and manipulative" who often exhibited self-centered and stubborn behaviors. Anger, desire for achievement, self-consciousness, and anxiety dominated the Nixon personality according to an assessment survey conducted by a number of psychologists. Nixon's dominate personality character traits are listed in Table Six below (Rubenzer and Faschingbauer 2004).

Table Six: Nixon's Personality Traits[20]

High	*Percentile*	*Low*	*Percentile*
Angry Hostility	99.0	Straightforwardness	0.07
Achievement Striving	99.0	Trust	0.10
Self-Consciousness	98.6	Tender-Mindedness	0.11
Anxiety	98.2	Altruism	0.4
Assertiveness	96	Warmth	0.7
		Compliance	0.8
		Positive Emotions	1.8
		Modesty	1.9
		Openness to Value	3

This psychological assessment supports Barber's character typology in many dimensions. According to James D. Barber, Nixon's character would be described as active-negative. People characterized as active-negative seek power as a means to self-realization. They put great energy into tasks but, because of what is probably low self-esteem, they focus on whether they are failing or succeeding and derive little joy from those tasks. These individuals are highly driven but inclined to rigidity and pessimism, often having problems managing aggression (Barber 1985). Nixon sought power and respect throughout his entire life and worried constantly about losing the power he had already obtained.

[20] (Rubenzer and Faschingbauer 2004)

The extreme challenges of the Nixon presidency are linked to his personality. Nixon's active-negative tendencies caused him to react rigidly and aggressively when his power was challenged (Nelson 2000). His worries and self image issues left him always feeling his power was being challenged. Every president wants to control policies, but Richard Nixon was driven to take that one step further than most. Richard Nixon implemented the Wage and Price Controls to take a dramatic policy stance on economic conditions and secure the approval of the American people to help his chances in the upcoming presidential election. He was looking for the "symbolic" policy move on inflation. Also, had Congress not taken the action of giving a paranoid and electorally concerned executive the power to take action, the policy would likely not have ever happened.

Most of the individuals that interacted with Nixon found him to be a man that worked hard, but got no joy from his work and seemed uncomfortable in his own skin. This carried over into his life in the presidency where he seemed more comfortable exercising his powers in foreign affairs, because he did not have to engage in the political maneuverings of working with Congress, dealing with Governors of key electoral states, or the press.[21] However, Nixon knew he needed to deal with economic policy for his own benefit.

Watergate and the released White House tape recordings paint the portrait of a self-destructive man (Bradlee 1999). For many reasons, Nixon was never comfortable with himself. Nixon described himself as "an introvert in an extrovert's profession."

[21] Nixon got his start in Congress with the likes of his future rival John F. Kennedy. However, even in Congress, Nixon showed his desire to work independently.

This lack of persuasion power further complicated Nixon's dealings in the economic policy realm. Nixon was also known as someone who had difficulties telling the truth (Lammers 2000).

A difficult childhood likely contributed to Nixon's personality in the White House. While growing up in California, his father, Frank, worked hard and pushed his children even harder with a very intimidating, aggressive personality. Two of Nixon's brothers died from illness in childhood and the family struggled with finances. Nixon began working in the family grocery store at an early age.

Although he was accepted into many East Coast colleges, Nixon attended Whittier College in California due to his limited finances. He later attended Duke University Law School in North Carolina while the school was still in its infancy. Nixon lived frugally while in school—even living in an abandoned shack for a time during law school—and presented himself as a very determined student. What he lacked in abilities, he made up for with determination (Lammers 2000).

Nixon graduated third in his law school class, but was unable to secure a job with any prominent East Coast law firms and returned to California to practice law. His experiences with college and work left him biased against the East Coast establishment. While in California, he met Thelma Catherine "Pat" Ryan through a theater group, whom he would later marry. Nixon served in the Navy during World War II and later pursued a political career (Lammers 2000).

Nixon won a seat in the House of Representatives in 1946. Nixon gained national attention in Congress with his participation in the Red Scare, a position where his sense of paranoia could flourish. He supported claims that Alger Hiss, a prominent member of the Eastern establishment and former State Department official, had associated with Communists in the 1930s. His prominent involvement in this incident helped him secure a Senate victory in 1950. Nixon was selected as Dwight Eisenhower's vice presidential candidate running mate two years later because he provided youth and regional balance to the ticket. After losing his presidential bid to John F. Kennedy in 1960, Nixon deemed his political career over, but reemerged as a victorious presidential candidate in 1968 (Lammers 2000). After these early career loses and reaching the White House, it seems Nixon was determined to never lose his power to electoral defeat again.

Richard Nixon was both a very intellectual man and a very capable politician. However, his lack of self-esteem and a rather narcissistic personality overshadowed his capabilities. These internal characteristics caused him to lose perspective and make decisions that were at times irrational and self-defeating (Volkan 1997). Was this something that drove his economic policies?

When historians and political scientists rank Nixon's presidential skills, this ranking does not meet the high expectations Nixon set for himself. Nixon is ranked thirty second out of the forty two presidents considered. He was ranked twenty first for leadership qualities, nineteenth for accomplishments/crisis management, eighteenth for political skills, thirty fourth for appointments, and forty one for character and integrity. Nixon wanted to leave his mark on the office of the presidency, but unfortunately, he is remembered more from the Watergate scandal than for any of his successes while in office (Ridings 1997).

President Nixon's intense paranoia drove him to place himself above the law, which made break-ins and surveillance seem like necessities. It was these same obsessions that allowed the Watergate scandal to happen and be exposed. This scandal ultimately tarnished the Nixon presidency and clouds any reflections on Nixon policies. The Constitution does not allow an impeached president to be pardoned and any prosecution of Nixon had to be avoided to preserve what was left of his legacy. With the acknowledgement that the president had recorded various incriminating conversations, resignation became Nixon's only option (Lammers 2000).

Besides his downfall during the Watergate scandal, Nixon's legacy is tied to his notoriety as a foreign policy whiz, particularly when it came to Soviet policy and relations with China. Nixon's reputation as a foreign policy analyst was so well respected that he was asked to advise then President Bill Clinton in 1994 over U.S. policies towards Russia (Lammers 2000). However, Nixon's skills in domestic policy are often overlooked because of his skills in foreign policy and his administration's implosion due to the Watergate scandal. Scholars note five key areas of domestic policy in which Nixon did leave a lasting legacy and exerted his influence in: welfare, civil rights, economic policy, environmental policy, and reorganization of the federal bureaucracy (Bradlee 1999). The wage and price controls Nixon imposed is part of his economic policy legacy.

Richard Nixon wanted a place in the pages of the history books, and was driven by his own feelings of self-worth that developed as a troubled youth in Whittier, California. He certainly had the intellect and the political capabilities to make a wonderful president. However, he could not fight his greatest enemy, which was his destructive personality. His quest for control dominated his presidency.

President Nixon's ultimate failure as president was that he misused the powers of the office. These abuses of power were allowed and sometimes deemed to be acceptable. Is this the case for economic policy? If President Nixon could have overcome the personality defects that allowed him to find the abuses of power he committed acceptable, history might have remembered him as one of the presidential greats.

Nixon and Economic Policy

Presidents only have a limited amount of time and must focus their attention on the most contentious high-priority issues. Foreign affairs and non-economic domestic issues were a greater concern for President Nixon (Weatherford 1987). When Nixon entered office, economic conditions were worsening and unemployment was rising. The economic strain of the Vietnam War was a contributing factor to these conditions (Volkan 1997). Economic policy was overshadowed by foreign policy. Nixon's brief mention of the economy in his inaugural address, for example, included only the statement that: "We have learned at last to manage a modern economy to assure its continued growth" (Matusow 1998).

Richard Nixon is not someone known for his skill or interest in economic policy. For a man who devoted much attention and is often remembered for his foreign policy accomplishments, Nixon had even less interest in international economics than he did in domestic economics. The Watergate tapes provide further example of his true lack in international economics and his interest in economic policy in general[22] (Woodward 1974).

While President Nixon's may not have had a great interest in economic policy, he did remember that the conservative economic policy of the Eisenhower administration in 1959 likely cost him the election of 1960 (Small 1999). In fact, it seems he decided to focus more on domestic issues only after the Republicans did not do very well in the 1970 mid-term elections (Drew 2007). Hence, it seems Nixon recognized a strong link between the economy and electoral success. The electoral success of President Nixon depended upon the economic success of the entire nation.

When it came to foreign policy, Nixon saw himself as a leader. He knew that was his strength. But being aware of the importance of economic policy to his election, he was not going to let his record slack on economic policy. With the election in mind, Nixon knew what he wanted the American people to think of when they thought of Nixon and economic policy. In speaking with his Treasury Secretary in July 1971, Nixon said "The man…that made the bold move on China, you think he's not going to be bold if necessary with regard to this economy?"[23] Nixon was not willing to look like an idle leader as the economy declined. He wanted to be seen as a bold leader and identified the economic policy that would make him appear to be a bold leader.

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[22] As a currency crisis was looming in Europe, Nixon said "I don't give a shit about the Italian lira" when informed of the situation by advisers. He was simply expressing what he thought would be his private opinion about an international economic situation. Nixon simply had no economic policy interest as his private statements demonstrate.

[23] Nixon White House tape (545-2), July 24, 1971

Administrative and Statutory Tools

The wage and price controls were a unique policy. The policy was created by executive order. In order to gain the statutory ability to create the policy, President Nixon relied on the Economic Stabilization Act of 1970 (Kagan 1978). Congress passed this act, which gave the president the authority to stabilize prices, rents, wages, and salaries (Krause 1999). Once Congress gave the President the power, Nixon was driven to act. The President's economic advisers were key facilitators in policy creation and enactment. President Nixon needed his advisors and bureaucratic action because he lacked Congressional support.

Nixon's Economic Policy Rhetoric

Nixon was not a skilled public speaker, primarily because he was not comfortable in the press environment and he had to work to control his impulses (Greenstein 2000). As mentioned, he did not trust the East Coast establishment or the press, and it was difficult for him to hide his disdain for these groups, even during a press conference (Bradlee 1999; Lammers 2000). When addressing credibility concerns members of his economic team raised regarding administration statements on the Wage and Price Controls, Nixon showed his distrust of the press stating, "You say credibility with the press. First let us remember the press, the great majority couldn't give one stinking damn about whether we're credible or not. They just want us to lose."[24]

[24] Nixon White House tape (462-13), March 5, 1971

Combined with a lack of interest in economic policy, Nixon did not often focus his speeches or address on economic policy. With the wage and price controls, it was particularly important for the success of the policy to remain quiet about the plan until implementation. There was no communication of the plan or public discussion. Nixon only kept a few trusted advisers involved in the decision-making process.

The policy plan remained a secret to avoid preemptive increase in wages and prices in anticipation of the policy's enactment. It was not until President Nixon had decided on the policy was it announced and it went into effect immediately. Paranoia and the desire for secrecy kept even many within the economic advisory chain unaware of the policy before it was decided upon. While this secrecy may have been an integral part of the policy, it meant the policy went into effect without any administrative structure in place to communicate requirements to the public. There was no definition of application of the order to specific cases or communication of a means of identifying and punishing violators (Kagan 1978).

Nixon's Team of Economic Advisors

Problems presented themselves when Nixon attempted to surround himself with key advisors. Unlike Presidents Franklin D. Roosevelt or John F. Kennedy, Nixon did not have the same ability of attracting exceptional people to work with him. There was a very strained relationship between Nixon and the East Coast establishment. Nixon felt inferior to Ivy League intellectuals and was paranoid about the press, being very suspicious of their biases (Bradlee 1999). Essentially, Nixon had a list of institutions and individuals he hated, which included liberals, the Eastern establishment, the Kennedys, academics, and the press (Lammers 2000). This hatred, coupled with paranoia in general, presented difficulties when attracting key skilled economic advisors and limited his choices. Some of Nixon's appointments to economic advisory roles were not known for their talent or expertise in economic policy, unlike Nixon's appointment of Henry Kissinger as Secretary of State who had a distinguished academic career in foreign policy (Bradlee 1999).

Nixon wanted to be a very active president but is still bound by time. Strong advisers can help compensate for limited time constraints. While he preferred foreign policy and admired the presidential styles of Theodore Roosevelt and Woodrow Wilson, he also recognized that his success in foreign policy depended on a well-balanced and successful domestic policy. Nixon believed his Cabinet could run domestic affairs independently, but many members of his Cabinet were not known for their strong managerial or leadership skills (Lammers 2000).

One individual that drew a lot of support and praise was former Texas Governor and Nixon’s Treasury Secretary, John Connally. Interestingly, though he was appointed Treasury Secretary, Connally had no training as an economist. Instead, his educational training was in law and he crafted a successful political career; hence the president was placed the most confidence in a politician for his source of economic advice. He was so favored by Nixon that he was once considered as a Vice Presidential candidate for 1972 (Lammers 2000).

The person behind the wage and price controls in the Nixon administration was

John Connally, Secretary of the Treasury (Volkan 1997). Nixon appointed John Connally to replace David Kennedy at the Treasury Department in 1970. Connally was a strong, colorful and assertive leader, rumored to be Spiro Agnew's replacement as Vice President in 1972. Connally was a much more active and pragmatic economic advisor than many of Nixon's other economic advisers. The president placed a great deal of trust in Connally unlike many other of his economic advisers and expected him to take the necessary actions to fix the economy (Small 1999).

Certainly, the role that Connally played in the wage and price control policy was crucial. Connally was the quarterback of the Nixon economic team at Camp David. The Wage and Price Controls freeze was the least debated economic issue at Camp David, though many on the Nixon economic team strongly disagreed with the measure. Nixon did not support their views as his mind was made up by the need and ability Congress gave him to act. Connally was the only adviser he looked to for his economic policy (Matusow 1998).

Within months of beginning his appointment as Secretary of the Treasury, Connally gained the trust of Nixon and became one of his most relied upon advisers. Nixon liked Connally so much because he knew he could tell him to do something and he would get it done.[25] According to a conversation President Nixon had with Connally in March 1971 while in the White House: "Whenever you have anything to talk about, as you know ... [Secretary of State William P.] Rogers can get through; [Defense Secretary Melvin R.] Laird can get through; [Attorney General John N.] Mitchell can and

[25] Nixon White House tape (469-13), March 18, 1971

you can, that's all."[26]

Having a good relationship and a lot of trust in the Treasury Secretary is key for creating economic policy and addressing economic crisis issues. Nixon believed that his Treasury Secretary should be the center of his economic policy and the spokesmen for the direction of economic policy for the administration. In a conversation with the Chairman of the Federal Reserve, Arthur Burns, Nixon indicates who he believes the leader on economic policy should be:

> "... the Administration's signals on economic policy... we've got to have one spokesman and that is the Secretary of Treasury. ...If we speak with many voices, that creates uncertainty....If John [Connally] steps up and (garbled) something and then a story comes out from you [Burns] that indicates a different view...there is no way we can really cut it..."[27]

To further reinforce this point, Nixon instructs his Press Secretary, Ron Ziegler to tell the American public "“The man who is the chief economic spokesman for this administration and frankly the President's chief economic advisor is the Secretary of Treasury."[28] Despite a strong Treasury Secretary he could rely on after the 1971 appointment of Connally, Nixon was not as supportive of other economic policy officials. In particular, Nixon wanted to make it clear that these other officials were not to be and were not to be seen as being representative of the administrations views on economic policy.

For most of Nixon's tenure in office, economic advisors were not the central figures in the administration and changed throughout the life of the administration

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[26] Nixon White House tape (466 – 2), March 11, 1971
[27] Nixon White House tape (531-16), June 28, 1971
[28] Nixon White House tape (530-3), June 29, 1971

(Weatherford 1987). There were many key economic advisors in the Nixon administration when economic problems started to suffer. The key advisors Nixon relied on besides Connally for economic policy were Paul W. McCracken, head of the Council of Economic Advisors (CEA); David Kennedy, Treasury Secretary (1969-1971); Robert Mayo, director of the Bureau of the Budget; William McChesney Martin, Federal Reserve Board member; and George Schultz, Labor Secretary. All of these advisors were moderate economic conservatives, but the group was divided between those who favored the Keynesian approach of changing fiscal policies and those who favored the Friedman approach of changing monetary policy (Drew 2007). This divide proved difficult for Nixon.

When it came to economic policy, Nixon tended to follow the Friedman school of thinking (Drew 2007). According to John Ehrlichman's account of Nixon's involvement in economic policy-making during his first term,

> "Of the time he devoted to domestic issues, I would say 35 to 40 percent was spent on the economy. Once he had moved Arthur Burns to be Chairman of the Federal Reserve, John Connally to be Treasury Secretary, and George Shultz to be director of OMB, he saw those people very frequently. They educated him and he translated their education into policy. Soon he was so much on top of it all that not a sparrow fell without him getting involved" (Aitken 1993).

The key to creating economic policy for Nixon was getting the right economic advisers in the right places. Nixon nominated advisor Arthur Burns to head the Federal Reserve in 1969 to replace William McChesney Martin, Jr. who had been Chairman of the Federal Reserve since 1951. The divide between economic policy members needed to be contained for Nixon's sake. Nixon believed that Burns would be easier to control than Martin because Martin had an independent streak. Nixon made it a point to tell

Burns that he wished to avoid a recession and would accomplish this by tightening the money policy (Drew 2007).

However, Burns appointment did not end tensions between the White House and the Federal Reserve. During the Wage and Price Controls policy creation phase, Nixon was at odds with Burns for much of that period. Burns strongly supported implementing Wage and Price Controls before Nixon supported the idea and Burns was vocal with his support. Nixon did not trust Burns and largely left him out of the decision-making process. In voicing his private opinion of Burns in a White House discussion with Connally, Nixon said: "He's (Burns is) ruthless. He plays all the bureaucracy. He plays all the press. He does the leaks. He does everything else, John…I'd be delighted to be the first President in 25 years to take the Fed on if it becomes necessary."[29]

Control was important to President Nixon. Nixon took tremendous steps to keep Burns and other members of the bureaucracy under his control. In one of his attempts to control Burns by any means, Nixon instructed Charles Colson to leak a baseless story that Burns had asked OMB for a 50 percent raise (Drew 2007).[30]

As economic conditions began to worsen, Nixon focused blame on his team of advisors. Nixon identified Burns as head of the Federal Reserve and his cautious nature as one of the problems (Small 1999). About a decade after the end of the Nixon administration, Burns did not have kind things to say about the management style of Nixon. According to Burns, Nixon, unlike the two subsequent presidents whom he

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[29] Nixon White House tapes (462-12), March 5, 1971
[30] Nixon White House tape (545-3), July 24, 1971

worked under, “tried to interfere with the Federal Reserve in ways that were fair and in ways that were by almost any standard unfair” (Thompson 1987).

According to Herbert Stein, a member of the Council of Economic Advisors (CEA) under the Nixon administration, the Wage and Price Controls and the change of the gold standard were the most dramatic economic policies taken during the Nixon administration. The Wage and Price Controls decision was made outside the normal channels, largely through the influence of John Connally. This policy is remembered as being the result of Nixon’s desire for a dramatic gesture and the support of an intelligent, assertive man. It is suggested that Nixon did not have much faith in the measure, but went along with it because people he supported and respected certainly believed in the idea (Thompson 1987).

Any problems of how to end the freeze were left to be handled closer to the end of the freeze. Schultz expected that labor unions would end the wage and price controls for the administration. Prior to enactment, George Meany, president of the AFL-CIO labor union, endorsed Wage and Price Controls believing they would never happen. This belief enabled the Nixon administration to easily dispel the concerns of labor once the measure was enacted. While Nixon had at one time claimed he would never impose wage or price controls, the measure itself was widely popular with the public (Matusow 1998).

Nixon and the Bureaucracy: Implementation of the Wage and Price Controls

President Nixon provides a prime example of how the bureaucracy and staff arrangements need to be tailored to the White House occupant. The introverted Nixon would not be well suited for an executive branch that relied on the president's interpersonal skills. Nixon's most trusted political advisers, Haldeman and Ehrlichman, limited access to the president and created the strategic plan for the executive organization. Again, Nixon's great attention to foreign affairs meant his focus on the creation of a bureaucracy strongly capable of working within his foreign policy vision and a domestic policy staff which had great leeway in operations since the President lacked a strong interest in domestic policy (Greenstein 2000). Most of Nixon's economic policy involved a hands-off approach. However, when an economic policy entrenched upon his abilities to be in the White House, Nixon took action.

Nixon is noted for his ability to guide the bureaucracy to produce the policy change he desired. He reorganized the Bureau of Budget, making it into the Office of Management and Budget (OMB) (Lammers 2000). This gave the executive branch a bureaucratic arm to monitor actions through economic oversight of agencies. The Nixon administration demonstrated the power an executive can have over the bureaucracy by changing the Aid to Families with Dependent Children (AFDC) program in spite of bureaucratic opposition (Randall 1979).

Presidential failures in the realm of bureaucratic relations and ensuring policy success stems from a lack of time, a lack of political or personal interest, or a lack of understanding the bureaucracy and management tools at hand. In the welfare case, President Nixon switched between a legislative and a managerial approach to interact with the bureaucracy differently depending on the situation. The legislative strategy involves working with Congress to achieve goals through legislation, which was difficult when Congress is politically opposed to the President. The managerial tools the executive has under their power are monitoring and evaluation, reorganization of a bureaucratic agency structure, and budgets (Randall 1979). Nixon employed a managerial approach when it came to economic policy and the implementation of the Wage and Price Controls.

Bureaucracy deserved the blame for the ills of government in Nixon's opinion. The trouble with the federal government, according to Nixon, was that the bureaucracy was not responsive to the elected officials. He promoted party politics over bureaucratic governance in his early career governing the nation because he felt elected officials should govern (Rung 1999). It was the bureaucracy itself and Nixon's use of the bureaucracy that made his economic policies possible.

President Nixon tried to exert political control over was the bureaucracy. Nixon distrusted the bureaucracy, telling White House Chief of Staff Bob Haldeman in 1971, that "96% of the bureaucracy are against us, they're bastards who are here to screw us" (Lammers 2000). Haldeman was an integral player in Nixon's management of the bureaucracy. Nixon never liked the conflict incurred when firing staffers, so Haldeman was responsible for that task. However, Haldeman would later resign from Nixon's administration under controversy and cause problems for Nixon (Pfiffner 1993).

Known for his paranoia, Nixon felt the bureaucracy was trying to sabotage his success. He ordered the Bureau of Labor and Statistics (BLS) to stop holding news conferences to announce monthly unemployment figures, even though the Joint Economic Committee of Congress released the same figures (Small 1999). However, this effort demonstrated just how far Nixon was willing to go in his attempts to manage the economy. This paranoia also played a role in the Wage and Price Controls policy and Nixon's desire to involve as few people as possible in the decision making process to avoid sabotaging the policy.[31]

Due to his distrust of the bureaucracy, Nixon increased the size of the White House staff and centralized control. He did not trust the executive branch bureaucracy or many of his own political appointees, but he did trust his White House Chief of Staff to handle matters (Pfiffner 1993). The Executive Office of the President (EOP) was expanded and many operations fell under the control of the White House. The administration went to extreme measures to ensure agencies were abiding by the Nixon polices. As a part of this process, Nixon reorganized the Bureau of Budget and made it into the Office of Management and Budget (OMB) (Lammers 2000). A quality of life review board under the Office of Management and Budget (OMB) was then established in an attempt to control other parts of the bureaucracy, specifically the Environmental Protection Agency (EPA) (Nelson 2000).

When looking at the Wage and Price Controls, it is interesting to consider Nixon and his interactions with the bureaucracy. The plan was the brainchild primarily of Connally, whom Nixon trusted enough to manage the policy once the decision was

[31] Nixon White House tape (547-9), July 27, 1971

made. This also indicates Nixon's disinterest in the policy, especially when it produced the desired bump in the polls and meet the approval of the public. Still, challenges existed when it came to both the short and long term implementation of the Wage and Price Controls policy.

The greatest challenge of the Nixon plan of Wage and Price Controls would be implementation. Nothing was in place when the plan was announced. No federal administrative structure existed to communicate requirements to the public or to detect and punish violators. No administrative agency existed to interpret and enforce the policy. An improvised group of Cabinet members and government economists were quickly assembled to assume policy responsibility (Kagan 1978).

Economic "czars" became common practice during the Nixon administration to deal with economic crises. Treasury Secretary John B. Connally became his economic "czar" because Nixon was uncomfortable with attempts to make policy by cabinet-level committees (Pika 2008). A czar is not an official government position and does not undergo Senate "advise and consent" such as members of the Cabinet and other heads of federal executive branches do. Czars are individuals in the administration who are coordinating national policy on a particular issue across agencies. They take the lead on a particular national policy but generally as a response to a near term issue instead of directing government policy for a long period.

The czar of the Wage and Price Controls policy would be none other than John Connally. President Nixon determined the Cost of Living Council (CLC), chaired by Treasury Secretary Connally would monitor the freeze (Small 1999). True to Nixon's previous stance, the bureaucracy then received much freedom in the implementation of the policy. With so many things to monitor and no real long term plan at the time of implementation, the policy became difficult for the bureaucracy to monitor and strictly enforce (Kagan 1978).

Despite these challenges, officials pushed to create a series of flexible yet consistent rules. The CLC operated under a set of rules that it communicated to the public and then relied on informal procedures for enforcement. By avoiding formal procedures, there was more mobility to the policy's response speeding the reaction of the federal government. Since the policy and program were temporary, the ad hoc implementation and enforcement approach was successful (Kagan 1978).

Immediately, the CLC delegated responsibility of implementation to the Office of Emergency Preparedness (OEP). The OEP was a small executive agency whose mission involved responding to crises, such as managing federal disaster relief after a natural disaster. Staff members from other federal agencies were borrowed to meet the immediate demands of the temporary policy. The OEP responded to 750,000 inquiries and requests for investigations during the ninety day freeze. The OEP enlisted the help of other federal agencies to assist with the enforcement of the act. For instance, the Internal Revenue Service (IRS) was tasked with investigating applicability of the freeze to particular situations, considering requests for exemptions to the requirement, and monitoring compliance (Kagan 1978). This ad hoc conglomeration approach of multiple existing agencies met the bureaucratic call to action during the freeze.

Standards of Evaluation

President Nixon engaged in a selective intervention strategy when invoking the Wage and Price Controls. Other actors of government and opinion polls drove him to that policy. Nixon did not focus great amounts of attention on economic policy. Instead he took initiative to do something about inflation to ease concerns over the next election cycle and then basically backed away from economic policy. In this instance, he entrusted Treasury Secretary Connally with ensuring the success of the policy and to determine the details of the plan. The wage and price controls were not an effective long term strategy and the initial policy enactment was only for ninety days. After the policy was enacted, the President felt his goals were achieved.

The Wage and Price Controls prove to be an interesting economic policy. Four elements of the wage and price controls influenced implementation: 1.) the extent of its application to so many areas of economic activity, 2.) its restrictiveness in regards to traditional approaches to free market economics, 3.) highly visible instances of non-compliance, and 4.) rapid mobilization encouraged self-enforcement. Due to the improvised nature of the policy, self-enforcement became the common policy approach. The president was not interested or supportive of the policy and lost interest in long-term enforcement of the policy. The policy was successful in providing Nixon with short term bounce in public opinion polls (Kagan 1978).

Context of the Executive Branch in American Politics

Time within the Presidential Administration and Electoral Cycle

President Nixon was in his third year of his administration when inflation became a concern. He was just months away from the next election. Growing concerns over economic conditions had people worried. Nixon did not like economic policy but he knew it was integral to his electoral success. He took economic policy action that he was opposed to in order to help his approval ratings and his standing in the next election.

Time in his administration also influenced which branches of government he could rely on for cooperation. Earlier in his term, President Nixon attempted an legislative approach to economic policy and tried to work with Congress (Randall 1979). However, Congress was dominated by the opposing political party. Being in his third year in office and working with a political party that wanted to control the White House, Nixon could not work with members of Congress. Instead, he had to rely on presidential management of the bureaucracy to meet the goals of his economic policy approach during an economic crisis.

The President and Congress: Exercising Chief Legislator Powers

Friendly relations did not exist between Congress and the President. Nixon was the first president in 120 years to face a Congress with both chambers controlled by the opposing party during his first term in office (Lammers 2000). In terms of economic policy making, Congress had already "punted" the political ball, which had reduced the

Congressional burden of economic policy making in this case. With economic conditions worsening at the end of the 1960s, Congress took action with the passage of the Economic Stabilization Act of 1970 (Krause 1999).

The expectation of Congress was that the president would not take this action and Congress would be able to say they gave the president the power but he refused to use it (Small 1999; Thompson 1987). It seemed Congress had taken the safe bet. Nixon’s economic and political philosophies were well known; he was a mainstream Republican conservative known for one of the more activist orientated set of intervention economic policies ever (Krause 1999). Congress played a game of chicken with economic policy and hoped the president would act as they expected and not take any action. Nixon’s expected inaction would help secure victory for the Democratic Party in the next election. However, their expectations proved wrong. Congress failed to take into account the personal reasons which would prompt Nixon to act, namely that he recognized the electoral costs of inaction himself and his greatest fear was losing power.

Lessons Learned from the Nixon Administration on Economic Policy

There were problems with the economy during the Nixon administration. Many problems were simply a part of a longer term economic policy issue. However, Nixon’s experience in politics reminded him that economic policy could ruin an administration and caused him to take an electoral gain policy stance to economic policy. Nixon took dramatic action to ensure the nation his administration was well equipped to handle an economic crisis.

An economic problem presented itself during the middle of Nixon's first term. This economic problem presented tribulations for Nixon's foreign policy and upcoming election bid. Economic problems had prevented electoral victory for Nixon or his party in the past. Hence, he identified a need for action and his means of action reflected his personality. Nixon addressed economic policy in the same manner he addressed foreign policy—with a unilateral executive plan of action in defiance of any critics in the legislative branch.

Thanks to Nixon's dramatic measures, the public believed the government was coming to their rescue. This belief lifted Nixon to a secure reelection bid in 1972. One of the main reasons Nixon took this action was because the public wanted action and responded well to these policies. He wanted to boost his reelection chances by taking a bold, symbolic move on economic policy.

Nixon did not want to be the president that failed to take action when the public wanted something done to help the economy. His paranoia over losing power prompted him to take any action to maintain power. Nixon's attempts to ease inflation represented a prime example to the public of a president willing to take dramatic actions to protect the economy, which helped Nixon in his reelection bid. Nixon took these actions knowing they would work in the short term but likely cause long term economic problems. Nixon's actions were enormously popular in the short term, serving him well at the voting booth.

Without the actions of Congress, Nixon would not have been able to take the executive actions he did. Congress eliminated any debate over presidential power by granting the executive the extraordinary authority to impose wage and price controls to address inflationary concerns. Congress took these actions because they did not believe Nixon would act contrary to his own stated beliefs on the economy and government intervention. However, they failed to anticipate their dealings with a man who placed remaining in power above his own personal beliefs. Congress had taken action on economic matters by granting the executive more authority to address an economic crisis. Congressional action likely secured presidential action in this case.

However, Congressional action in this case was simply the result of a political miscalculation. Democratic leadership in Congress did not think President Nixon would ever enact the Wage and Price Controls since those measures ran contrary to his ideological beliefs. Instead, Democratic leadership thought they were creating a political issue to use for the next presidential election. Economic conditions were worsening and the Democratic controlled Congress believed they were giving a Republican president power to address an economic crisis that he would not take. The Democratic controlled Congress did not help the Republican president enact economic policy directly beneficial to his desired economic policy goals. By this point in office, however, President Nixon learned that the legislative approach to policy making would not work when the two parties in control of each branch of government were in such opposition to one another.

Democratic leadership in Congress also failed to account for the personal characteristics of Richard Nixon. Nixon was so driven by his desire to win the upcoming presidential election and win the support of the American people that he was willing to take an action he seemingly fundamentally opposed in order to attempt to gain favorable poll numbers. The same personal motivations for the Watergate scandal were also at the heart of the Wage and Price Controls of 1971.

Without the support of the legislative branch, the executive branch would need to be able to identify a means of making the desired policy possible. Based on his personal leadership style, Nixon needed strong advisers to make it happen. He needed a bureaucracy capable of interpreting the policy and creating an efficient means of enforcement while creating a means of ending the policy.

Being a man who found it difficult to trust others, Nixon relied on a few close advisors to assist him in economic policy. Treasury Secretary Connally was a key figure in deciding which actions the executive would take. Concerns of other members of the economic policy team or other international players were not addressed. The support of the key figure on the economic policy team and the benefits for the executive meant the policy would happen. This lack of initial planning caused problems with the long term implementation and ramifications of the policy. However, Nixon was able to take an economic issue, identify it as a political issue, and take swift action to address the problems. Enactment of this policy helped Nixon leave a lasting legacy for presidential management of the economy in the modern era and adds to a portrait of Nixon as a man who would do anything to stay in power.

Table Seven: Tools Used by the Nixon Administration

Type	Action
Barber's Character Typology	Active-Negative
Administrative Tools	Created Cost of Living Council (CLC)
Statutory Tools	Economic Stabilization Act of 1970
Standards of Evaluation	Selective Intervention Strategy
Administration Year	Third Year
Legislative	Congress gave the executive branch the ability to freeze wages prices thinking Nixon would oppose action
Bureaucracy	-Interagency collaboration -Devised standards and means of policy implementation
Judicial	None
State Government	None
Political Party	Republican executive and Democratic legislative

Chapter Five

Bill Clinton and the Mexican Loan Guarantee of 1995

Addressing an Economic Crisis during the Second Year

President Bill Clinton embarked upon the largest government intervention to date to stabilize a collapsing economy with a series of loan guarantees in excess of $50 billion for the Mexican economy in 1995. Clinton learned lessons from his first year in office and included Congressional leadership early in the decision-making process to aid the deteriorating Mexican economy in order to avoid an executive versus legislative battle that would prevent policy action. This cooperation allowed unilateral executive action to be possible while avoiding a major political battle between the President and Congress. For President Clinton, his personality and the timing of the event drove him to place policy first. He believed his administration could overcome political challenges in order to implement a necessary policy.

During his second year in office, President Clinton witnessed a Mexican economy on the verge of collapse. Collapse of the Mexican economy carried negative economic, social, and political implications for the United States and threatened the economies of nations around the world. The American public was strongly opposed to taking action on the issue and Congress followed their desires, even though many economists had growing concerns over the issue. But at the beginning of his third year in office, he decided to act.

Leaders of Congress saw the need for action, but for political reasons, it was impossible for Congress to act. Congress supported the wishes of the American public due to concerns over electoral ramifications. However, the implications of collapse of the Mexican economy would be felt by the United States and the rest of the world. Action was needed to stabilize the devaluation of the peso and ensure the liquidity capabilities of the Mexican government in order to avoid a total destabilization of the Mexican economy and government. Without legislative or international action, the only actor who could respond was the President.

President Clinton, a man who came to office a Washington outsider with little experience in national economic policy, decided to take preemptive, unilateral executive action to address the economic crisis in Mexico. The Clinton administration enacted a massive loan guarantee program to ensure the success of the Mexican economy. The President found the support and ability to take such action through a broad interpretation of existing legislation allowing the Treasury Department to use funds designated to stabilize currency fluctuations. The President cooperated with Congressional leadership but legislative delays ultimately resulted in the President taking action independent of Congress. However, due to early cooperation, Congress did not act within their Constitutional bounds to prevent the President from acting. In this instance, President Clinton acted largely like a president implementing a foreign policy. President Clinton saw economic policy as being intrinsically tied to foreign policy, and in this case the economic policy matter dealt with a foreign trading partner.

The Mexican loan guarantee was referred to as "the least popular, least understood, but most important foreign policy decision of the Clinton Presidency" by *New York Times* columnist, Tom Friedman (Clinton 2005). However, the Mexican loan guarantee program was fundamentally an economic issue. It stands as an example of a president taking extraordinary measures during a time of economic crisis. Clinton could have decided to not be involved and avoided any negative political consequences as Congress had done. After all, there were no guarantees that the plan would work and it was a plan that a majority of Americans did not support and Congress could not legislatively support. However, it was decided that the problem was simply too big to ignore.

A Growing Economic Crisis in Mexico with Implications for the US

An economic crisis with international ramifications that the administration decided not to ignore presented itself in the early years of the Clinton administration. Clinton refers to the financial crisis in Mexico as one of the biggest crises of his first term (Clinton 2005). The value of the Mexican peso collapsed in 1995, depleting foreign investor confidence in Mexico's currency and threatening the entire stability of the Mexican economy. The liquidity of the Mexican government and the entire Mexican economy was threatened. Chair of the Council of Economic Advisers, Laura Tyson, explained the projected implications of inaction during a press briefing on January 27, 1995:

> "A scenario in which Mexico does not get loan guarantee, is forced into a default situation, is unable to attract additional private sector capital of an amount to let it get back on this medium-term growth trajectory. And in that case what we assessed was over the next two years, it could take about a half a percentage point off of U.S. growth. If -- but the situation could be worse. And I think that's important to emphasize. We have from the beginning said this is a crisis which has the possibility of spreading to other global -- to other emerging markets. In that kind of scenario, it's our view that you might end up, in a worse-case scenario of many markets being involved, a full percentage point off of U.S. growth over the next two years."[32]

A collapse of the Mexican economy would have had dire implications for developing nations around the world as well as posing a threat to the United States economy. However, an intervention to stabilize the peso and prevent economic collapse threatened the principles of free market doctrines.

A loan guarantee was one means of helping the Mexican economy survive the immediate crisis. With a loan guarantee, the United States would agree to cover Mexico's debts in the event of non-payment on obligations, putting creditors' worries at ease and enabling Mexico to borrow funds in the immediate term providing. The belief was that this guarantee would provide the Mexican peso and economy much needed time to recover, helping the United States and the international economic system avoid the fallout of the Mexican economy's collapse.

The fallout of the collapse of the Mexican peso and economy to the United States was clear to the economists at the U.S. Treasury Department. Economists were worried about contagion, a condition where the effects of the crisis spread to other nation's economies, particularly the United States' economy. If allowed to collapse, the

[32] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=59509. *Last Accessed*: June 25, 2010

Mexican economy would retreat to the level it had been at five years earlier. Projections suggested this situation would increase illegal immigration to the U.S. by as much as 30 percent and reduce the growth of the U.S. economy by about 1 percent (Clinton 2005; Hamilton 2007).

If Mexico's economy had failed, the fate of millions of Mexican workers, the jobs of 700,000 Americans, and the international economic system would have been at risk. Mexico was the United States' new NAFTA[33] partner and a model of a developing-nation's economy (Hamilton 2007). The value of the peso declined at an extremely fast pace, which hampered Mexico's ability to borrow money and its repay existing debts. As the stability and value of the Mexican peso declined, Mexico issued short term debts which had to be repaid in dollars, a task which became increasing difficult as the value of the peso steadily declined. During the early months of 1995, Mexico had $30 billion in debt payments due that year but only $6 billion in reserves to pay them with, meaning the Mexican government would default on all loan payments leaving limited funds for immediate operation of the government (Clinton 2005).

There were many ramifications for the United States and the rest of the world if the Mexican economy failed. Mexico was the United States' third largest trading partner at that time—trade which would have dropped severely. Many developing economies all over the world would be impacted by the collapse of the Mexican economy, including emerging markets in Latin America, Central Europe, Russia, and South Africa. The U.S. economy would be further damaged if these emerging markets

[33] North American Free Trade Agreement

faltered because about 40 percent of American exports and much of our agricultural goods went to developing countries. A financially unstable Mexico would have also increased the presence of illegal activity such as the drug trade, in the United States and other countries, as Mexicans looked for new ways to make a living. The United States also worried about what message letting the Mexican economy collapse would send to their allies South of the border. In short, letting the Mexican economy collapse would have sent the message to Latin American countries that the United States was selfish and shortsighted in President Clinton's opinion (Clinton 2005).

Clinton's Initial Actions on the Economic Crisis

President Clinton was aware of the impact a collapse of the Mexican economy would have worldwide. As commander-in-chief of the U.S. economy, he chose to take swift action beginning the night the problem was presented to him (Hamilton 2007). Clinton was a very gifted orator and had the personality and skills necessary to work with leaders in Congress of the opposing party and make the unprecedented bailout of the Mexican currency seem like a routine and sensible act of government. This intervention in the Mexico currency crisis is a definitive example of Bill Clinton going against the polls and taking the action he deemed necessary (Harris 2005). According to a poll in the *Los Angeles Times*, 79 percent of the American people opposed the Mexican loan guarantee package while only 18 percent of the people favored it. Bill Clinton's personal account of the Mexican aid package notes that:

"Polls can be helpful in telling a President what the American people think, and which arguments may be most persuasive at a particular time, but they cannot dictate a decision that requires looking down the road and around the corner. The American people hire a President to do the right thing for our country over the long run. Helping Mexico was the right thing for America. It was the only sensible economic course, and by taking it, we proved ourselves to be, once again, a good neighbor" (Clinton 2005).

President Clinton decided not to rely on polls in determining whether or not to act. Instead, he had to determine how action could be possible. One means of action President Clinton explored was the possibility of Congressional legislation. Despite polls and the difficulty of the problem, President Clinton initially believed legislation would be the best course and sought cooperation from Congress. He did not want to rule out any policy option too early. According to a press briefing with Press Secretary Mike McCurry on January 19, 1995, it seemed President Clinton was working with Congress to secure legislation:

"The President has been having good conversations with his team here, the team working on the Hill to secure those votes. We feel very confident, given the enormous importance of the Mexico economic support package, that we can generate bipartisan support that will allow us to pass this quickly. Obviously, there's a lot of work still to be done. There are a lot of discussions that need to be held on the Hill, but the President is confident that, given the enormous importance of this package, that members of Congress from both sides will rally to it and pass it expeditiously."[34]

Given the unpopularity of this measure, Congress was unable to gain enough bipartisan support to produce legislation. However, President Clinton still continued to work with Congressional leadership to ensure any executive action on the matter would receive

[34] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=59483. *Last Accessed*: June 25, 2010

the support of Congress. This cooperation was important, especially given public opposition to the policy.

Although polls showed an American public vehemently opposed to intervention in Mexico, Clinton benefited from being in the early stages of his term in office and far from an electoral cycle. The President at this point in office did not have the same electoral concerns as members of Congress. From the President's perspective, action was electorally beneficial given the economic projections of inaction. The crisis would have caused controversy in the next U.S. presidential election even if nothing been done to correct it (Harris 2005).

From the administration's standpoint, Treasury Secretary Bensten had already departed his post. His untested and not yet established replacement, Robert Rubin, former National Economic advisor, was left to handle the crisis for the Clinton administration. Treasury Secretary Rubin suggested a multi-billion dollar loan initiative for Mexico (Harris 2005). Rubin and his Deputy Lawrence Summers informed the administration that the amount needed to bailout the Mexican economy would be $25 billion. Rubin's recollection of the evening this decision was made notes that, "Often, when I've heard criticism of Bill Clinton as indecisive or driven by politics rather than policy, I've remembered and cited that night as a response." The President was a determined, policy driven man on that night (Hamilton 2007).

The aid package was an enormous risk for Clinton. There was no guarantee that the policy would work. Even with the aid package, the Mexican economy could still fail. In that scenario, the United States would lose billions of dollars and be burdened with widespread international economic problems. From an economist's perspective, there was also the problem of "moral hazard". The Mexican economy faced collapse because of flawed government policies, weak financial institutions, and investors that made risky investments. Unwise and risky decisions are not supposed to be rewarded in a free market economy (Clinton 2005).

The benefits of economic interference are evident by looking at the differences in the Mexican economy in different situations of instability. This situation was a vast improvement over the Mexican economic collapse that occurred in 1982, which took the Mexican economy almost a decade to recover from. The 1995 near economic collapse in Mexico only lasted seven months and recovery soon came. The Mexican government also repaid its loans in full in January 1997, more than three years ahead of schedule (Clinton 2005). The policy seems to have been a complete economic and political success.

According to Bill Clinton, he decided to act because he realized the consequences of inaction. As Clinton puts it,

> "So a year from now, when we have another million illegal immigrants, we're awash in drugs from Mexico, and lots of people on both sides of the Rio Grande are out of work, when they ask me, 'Why didn't you do something?', what will I say? That there was a poll that said 80 percent of Americans were against it? This is something we have to do" (Clinton 2005).

The political ramifications of inaction in this case were just too great to ignore and it took policy foresight to identify that fact. It also took a skilled politician to identify the need for action and take the actions he did.

The President needed to be able to identify a means of acting. He needed to understand the Congressional role in the process. Even though he determined the need and a means for action allowing him to bypass Congressional legislation, the President still needed Congressional support to ensure the policy took place quickly without a drawn out turf battle over executive versus legislative power or a political fight.

Fifteen years after the even in a speech at an Atlantic Council event on April 28, 2010, President Clinton described the decision-making process from his perspective as follows:

> "I took about five minutes to decide we had to help Mexico, but my younger staffers thought I had literally lost my mind…Bob Rubin told me that, said, you know, Mexico's got two hours to live and if we don't give them a loan guarantee, they're going to go belly-up tomorrow. And the leadership of the Republican and Democratic parties had previously promised to support me in Congress and Newt Gingrich and Bob Dole – this was one that was a straight-up deal. We didn't have a political fight. They came and said, we can't deliver any votes because there had been a poll in the paper that morning which said that by 79 to 18, the American people were against – strongly against my giving financial assistance to Mexico.
> And so they came in; we had a little debate. Bob Rubin made the case. Somebody made the arguments against it. I said, this is not close. Give them the loan. And all the younger people there in the room literally thought I should be given immediate psychiatric care. (Laughter.) They said, look, we just lost the Congress. You just got your brains beat out once. Now you're doing something that 79 percent of the people are against. Are you out of your mind?
> I said, okay, let's don't do it. Let's don't do it. Let's tell him, sorry. Then a year from now when Mexico is still reeling, when people have been hurt south of Mexico, when we have another million illegal immigrants, when there are more narcotics coming across the border, when every Mexican hates our guts because they think we're greedy and selfish and uncaring about our neighbors and people ask me what in the daylights are you doing letting this mess develop, my answer is going to be, well, on the day I could have stopped it, there was a poll saying 79 percent of you were against it. And it quieted all the opposition.
> I said, look, people hire presidents to win for America and to win for the world and to look around the corners and you're either right or wrong; you got to live with it. But you can't worry about what's popular at the moment you do it because by definition on foreign policy as opposed to many domestic issues, you

> actually have more information than most people do. And if you ask anybody to do anything that's got any inherent risk at a time when everything is not hunky-dory at home, they'll always be against it.[35]

Clinton knew he had the ability to act on the matter and that the President was the only actor who would be capable of taking action. For President Clinton, the Mexican loan guarantee program turned into an easy decision, yet still potentially risky decision from a political perspective.

The Context of Presidential Actions

The Intricacies of Bill Clinton

Clinton the politician is an interesting figure. Policy setbacks in his first three months as president left him with sharply dropping popularity ratings. In the long term, these setbacks proved to be beneficial as he was able to learn from his mistakes. Yet, his political skills helped him achieve legislative success in dealing with the Republican stronghold in Congress during his first term. Clinton became the first Democrat to be reelected to the White House since Franklin Roosevelt. He left office with high public approval ratings, despite scandals and impeachment hearings in Congress (Lammers 2000).

The road to the White House was not easy for Bill Clinton. Clinton was the first member of the Baby Boomer generation to serve as president, but faced controversy because of his failure to serve in the Vietnam War and his "I did not inhale" claim when it came to his alleged drug use as a young man. Still, he always seemed to be able to

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[35] http://www.acus.org/event/2010-awards-dinner/clinton-transcript

rise above the controversy. His upbringing and childhood experiences developed his personality and character as a young man. Lessons from his own personal experiences made him the president that he was.

Clinton's life is filled of instances where he is able to overcome difficulties. His father died before he was born and his mother returned to school to gain the skills necessary to become a nurse anesthetist in order to support her family. Clinton lived for a short time with his grandparents while his mother worked to give them a better life. Clinton’s mother married Roger Clinton while Bill was still very young, but Roger Clinton was an abusive alcoholic, often putting Bill in the place as defender of his mother (Lammers 2000).

Clinton's mother was an important person in his life and a source of great support which helped him develop his positive outlook and active involvement in many activities where he sought great achievements. His mother always believed in his abilities and felt he could accomplish anything he set his mind to, a belief instilled in a young Bill Clinton. Being president was a lifelong goal of Bill Clinton. The dream began at a very early age and by the time he was in the second grade, his mother was already bragging to neighbors about Bill’s dreams. She also seemed to truly believe he would make it to President. This gave Bill many years to dream about what he would accomplish as president (Maraniss 1999).

Despite these hardships, Bill Clinton excelled in school, music, and extracurricular activities. He graduated fourth in his high school class and attended Georgetown University on a scholarship and majored in International Relations, where he had his first political experience running for class president. He went to Oxford University in England after graduation from college as a Rhodes Scholar. Upon his return from England, he attended Yale Law School on a scholarship where he met his future wife, Hilary Rodham. Rodham was also a high achiever and equally as successful. The two loved politics and Hilary would one day prove to be a very opinionated and active First Lady, capable of her own political career (Lammers 2000; Ridings 1997).

While obtaining his education, Bill Clinton worked on many political campaigns where he learned the inner workings of political life. Shortly after completing law school, Clinton embarked upon his political career. Running in a heavily Republican district for Congress in 1974, Clinton lost a close race to a four-term Congressman. However, he rebounded from this loss to be elected Attorney General for the state of Arkansas in 1976. Two years later in 1978, Clinton was elected governor of Arkansas. At the age of 32, he was the youngest governor in the United States. Despite one defeat, Clinton successfully won his other reelection bids and served as Arkansas Governor for ten years until his election to the presidency in 1992 (Lammers 2000; Ridings 1997).

Many prominent members of the Democratic Party decided not to run in for president 1992. The belief among Democrats was that incumbent President George H.W. Bush was unbeatable. Bush was favored because of his foreign policy successes in regards to the conflict in the Middle East, specifically Iraq. However, Clinton's personal drive, energy, and political skills enabled him to enter the race. His skills and luck then helped him run a successful presidential campaign (Lammers 2000; Ridings 1997).

These characteristics dominate everything he does, including traits he relied on to implement the Mexican loan guarantee program.

The childhood hardships of Nixon and Clinton are much more closely linked than the privileged childhood of Kennedy that Clinton so idolized.[36] Both Nixon and Clinton reemerged in their political careers after early electoral defeats. Nixon and Clinton both had trouble with the media and faced many questions about their personal integrity. They were both willing to put aside their ideologies in order to do what was deemed necessary. Like Nixon, Clinton faced enormous struggles to make himself successful (Doskoch 1996).

James Barber never analyzed the character of Bill Clinton, but certainly, Clinton would be considered an active president. He placed enormous amounts of energy in everything he did. Despite similarities with Nixon, Clinton may be more positive than negative. His overall strategy was to use power to create a legacy and fulfill his lifelong goal of being president. It seems his goal was using power to create a legacy (Maraniss 1999). Clinton was willing to take measures outside of the current, then popular opinion. This strategy may have been created with an eye on the legacy he would leave behind; assuming the immediate backlash for an unpopular action would not be too severe.

[36] While in high school, he traveled to Washington, D.C. at the age of 16, where he met and shook hands with President John F. Kennedy. This was the man Clinton idolized and one day dreamed of becoming who held the position of his dreams (Maraniss 1999).

It is very hard to place Clinton's personality in just one box. It seems his personality operates with a type of dichotomy. An early biography of Clinton describes his personality as:

> "With Bill Clinton, it is often tempting, but usually misleading, to try to separate the good from the bad, to say that part of him that is indecisive, too eager to please and prone to deception is more revealing of the inner man than the part of him that is indefatigable, intelligent, empathetic and self-deprecating. They co-exist. There is a similar balance to his life's progression. In his worst times, one can see the will to recover and the promise of redemption. In his best times, one can see the seeds of disaster" (Maraniss 1999).

Certainly, these tendencies and his background would affect his actions as president. It seems Clinton would be classified as an active-positive president overall in Barber's typology (Cronin and Genovese 1998).

Clinton is someone with a high energy level, high ambitions, intelligence, and blessed with the charm and skills of a very talented politician. His primary motivation was achievement, rather than power which had motivated Richard Nixon (Winter 1994). Clinton wanted to be and saw himself as the heir to the legacy of President Kennedy. However, psychologists note more similarities between the backgrounds of Clinton and Nixon than between Clinton and Kennedy.

When looking at presidents up until Bill Clinton, Clinton receives an overall ranking of twenty third. For leadership qualities, he receives the ranking of twenty sixth, accomplishments/crisis management as twenty third, political skill as twentieth, appointments as twenty fourth, and character/integrity a thirty eighth. His highest ranking was for his political skill and his lowest ranking was for his character/integrity.

This ranking does not place him near Franklin Roosevelt's success but does place him above Richard Nixon in presidential rankings (Ridings 1997).

While Clinton was not analyzed by Barber, additional studies have analyzed his psychological intricacies. Bill Clinton's personal traits show a high resemblance to the Franklin Roosevelt template of the modern presidency. He possessed the same sort of active, extroverted optimism and a keen political sense, like Roosevelt and was very well suited for the job. According to expert ratings of three psychologists, Clinton scored very high on extroversion but low on character. Table Eight depicts the dominate character traits of Bill Clinton as determined by a survey of a psychological assessment by a number of psychologists. These dominate characteristics, particularly gregariousness, positive emotion, and activity, would support Barber's typology of an active-positive personality for Bill Clinton.

Compared to an assessment of other presidents, Clinton scored highest of all on impulsivity, excitement seeking, tender-mindedness, and openness to value but lowest of all on self-discipline and order. Overall, President Clinton was a very intelligent man who sometimes had a tendency to make very poor choices (Rubenzer and Faschingbauer 2004). His extroverted nature would prove beneficial when working to enact a policy that was publically unpopular.

Table Eight: Clinton's Personality Traits[37]

High	*Percentile*	*Low*	*Percentile*
Impulsiveness	99.8	Dutifulness	0.4
Tender-Mindedness	98.9	Straightforwardness	1.4
Gregariousness	98	Order	4
Positive Emotions	98	Self-Discipline	5
Openness to feelings	95	Modesty	8
Excitement Seeking	92	Deliberation	9
Activity	92		
Openness to values	90		
Warmth	90		

Much of the criticism of Barber's analysis deals with the validity of the categories. However, another type of personality assessment tool commonly used by many corporations, the government, professional psychologists, and career counselors is the Myers-Briggs type indicator. Four scales place individuals within a realm of a possible sixteen personality types that determine an individuals' characteristics. The Myers-Briggs assessment of President Clinton places him in the four categories of Extraversion, Intuition, Feeling, and Perception, more commonly known as an ENFP. These individuals are most interested in the emotional needs of people. Their interest lies in the end result and not the details, with a focus on the future implications rather

[37] (Rubenzer and Faschingbauer 2004)

than the immediate. When making decisions, the focus is on social implications and tend to prefer to keep their options open rather than locking themselves into a firm decision (Lyons 1997). This personality would guide him in the policy decisions he would make in the White House.

These traits perfectly describe President Clinton's actions during the Mexican loan guarantee program. Clinton did not close the option of Congressional legislation until other action was decided upon. The entire policy looked beyond the immediate public disapproval. Instead, it focused on the implications of inaction, as well as the social implications of inaction, and the perceived long term effects of action.

Clinton and Economic Policy

Economic policy played an important role in the presidency of Bill Clinton. Few people had believed incumbent President George H.W. Bush could be beat at the start of the 1992 election campaign. However, there was a dramatic shift in American public opinion during the 1992 presidential campaign due mainly to deteriorating economic conditions. Recessions during an election cycle spell doom for incumbents, and Clinton represented policy and generational changes. Clinton sought to cut the federal workforce by eliminating 100,000 positions (Suzuki 1993). Prosperity and partisanship coexisted in the Clinton years (Rockman 2000). Yet, it was partisanship that often complicated economic policy making.

Elected on the premise "It's the Economy Stupid!" Clinton undertook major economic changes upon entering office. However, the Budget Debate in 1993 contained many political miscalculations on the new president's part. Advisors crafting the message did not believe in the economic plan being pushed, resulting in mixed messages and poor management on the issues of deficit reduction and the economic stimulus package (Harris 2005). Clinton would learn from these lessons and be more effective in enacting economic policy when the Mexican currency crisis presented itself. While presidents can be elected based on the public belief in their ability to handle an economic policy, this support will not follow them throughout their administration.

While Clinton did not have a strong background in economic policy before becoming President, the economy is often regarded as one of the strongest areas of the Clinton legacy. Clinton did not always ride with the tide of public opinion when it came to the economy and at times choose to pursue a preemptive economic policy. During his presidency, Clinton took unilateral executive action to impose a bailout program for Mexico. The public did not support this action, but economists and many members of Congress did.

The public had high expectations for President Clinton regarding the economy. When it came to making significant progress healing the nation's economic ills, 63 percent had faith in his abilities and 62 percent expected him to reduce unemployment. However, Democrats gained no seats in Congress in the 1992 elections and within months of being in office, Clinton's economic plan was killed in the Senate (Burns 1999).

Given that he was elected on a platform of fixing the economy, Clinton needed a strong economic policy to meet the promises of his campaign. Clinton revealed his three part economic plan a little less than a month after taking office. This plan included deficit reduction, long term investments in research, education, and training and physical infrastructure, and short-term spending to stimulate the economy (Pika 2008). However, much of Clinton's economic success stems from luck rather than policies. One of the most successful, but least understood economic policies of the Clinton administration was the Mexican peso bailout plan.

The *New York Times* reflected on Clinton's economic decision making early in his first term by stating, "Time and again, he was forced into hard choices about economic policy. In almost every instance he took the route favored by Wall Street, business executives, and conventional economists, not the ones that ordinary people might have favored and that almost certainly would have been easier to defend politically" (quoted from Quirk and Cunion 2000). Since he opted for economist policy recommendations over public popularity when considering an economic policy, the President had to be prepared and able to defend his decisions.

Economic policy during his administration was a matter of marketing and persuasion, resulting in a public relations war. The Clinton economic plan provided simple opposition points for the Republicans due to its complexity (Sinclair 2000). Given his traits, Clinton was the perfect individual for waging a war with rhetoric against the economy. As the economy continue to improve and expand during his administration, defending his decisions became much less of a requirement.

Although Clinton maintains a reputation as a policy expert who worked meticulously to master the details in a given subject, he had a very rudimentary understanding of economic policy when he was inaugurated as president (Harris 2005).

He came to the presidency with little experience in economic policy-making. He had presided over the economy of the small state of Arkansas and had little to no experience in international economics (Burns 1999). Clinton denounced “trickle-down” economics, which had been popular since the Reagan administration (Suzuki 1993). The strategy of governance in relation to the economy during the Clinton administration was to restructure and reform the existing activities of government, but not to extend the role of government as in the Roosevelt administration (Anon. 1999).

Despite not having an extensive background in economic policy, Clinton did have many fundamental ideas about economic policy and its place. He felt the key to economic success for the nation stemmed from monetary policy (Harris 2005). According to President Clinton, “At the end of the Cold War, the fundamental reality is that most competition between nations will be economic, that military power is a mixed blessing but a clear responsibility of the United States, that history will judge us based on whether at this moment we make the changes we need to make.” He saw parts of economic policy in other major policy areas. For example, Clinton viewed international affairs as an arm of his domestic agenda, saying: “My first foreign policy priority will be to restore America’s economic vitality” (quoted in Burns 1999).

Clinton lacked a war crisis, a grand economic emergency like the Great Depression, or civil rights struggle that inspired the leaders he admired to push for change. However, he still called for many economic, social, and political changes (Burns 1999). Since he viewed economic policy as an integral part of foreign policy, it is not surprising that Clinton could approach economic policy making the same as a president would approach foreign policy making.

Clinton's Rhetoric on the Economy: Leadership through Persuasion

Opinion polls were all overwhelming opposed to a program to bailout the Mexican economy, reflecting the belief that the United States government provided too much in the way of foreign aid. Due to the polls and difficulty of legislative agreement, Congress decided not to act. While economists may have supported the policy, the American public did not (Carlin 1995).

One reason the American public was so vehemently opposed to the policy was because they did not understand the intricate details of the policy, namely that it the United States was providing a loan, not giving the Mexican government money. According to a briefing with Press Secretary McCurry on January 27, 1995:

> "The stumbling block is that most Americans find it hard to accept the fact that with this very large dollar amount that they keep hearing -- $40 billion -- is going to be used to bail out Mexico. They keep, for a variety of reasons, hearing that. Frankly, there are people who continue to tell them that when it's not true. They don't understand the mechanics of a loan guarantee. A loan guarantee, as the President has said often, is like cosigning a note. We are, in a sense, giving them an insurance policy that is worth, ultimately, to them, $40 billion in exchange for them paying a premium to us so that we get money back. I think if you told most taxpayers that there is a good chance, if the fundamentals of the Mexican economy remain strong, that we might make money on this deal, that would probably ease some of their natural concern."[38]

[38] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=59522. *Last Accessed*: June 25, 2010

However, this was a difficult message to convey and there were no guarantees the policy would work to support this message. Besides worrying about gaining the support of members of Congress and the international community, President Clinton also had to work to gain the support of the American people.

President Clinton took to the airwaves in attempts to gain the support of the American people. President Clinton tried to explain to the American people their interests in supporting the policy in an interview with Tom Brokaw of NBC Nightly News on January 26, 1995:

> " *Mr. Brokaw.* You've also been working very hard this week on Mexico, pressing for a $40 billion fund to help prop up the peso. Even the most casually informed American taxpayer is going to say, "Wait a minute. Why do we want to risk $40 billion of my money for Mexico, when you look at the experience of the last 15 years in South America when some very sophisticated banks and other investors simply got burned by putting dollars down there?"
>
> *The President.* Well, they did, but we're not going to risk it. That's the difference. And I want to point out, one, we should help Mexico because it's in our interest. They're our third biggest trading partner. We've got $40 billion at risk and three quarters of a million jobs in America. Secondly, we have other interests at risk. We have the prospect of a new flood of illegal immigration if there's an economic collapse in Mexico. Thirdly, if Mexico has an economic collapse, we know from what we've seen already that it will bleed off into Argentina and all these other countries that are supporting our move to support more democracy and more free market economics in Latin America. So we have interests there.
>
> Now, this is not foreign aid. It's not a loan. It's not a gift. We are cosigning a note. That's what the loan guarantee is. And we will only do it if we have good collateral. Mexico has never failed on any of its financial obligations to us in the past, and this will be something where we will cosign a note with good collateral.

> I think it's in our interest. I know it's not popular, but it's in our interest clearly, and we should do it."[39]

President Clinton tried to explain the reasons the program was needed and remain optimistic on its outcome.

Despite these actions, President Clinton still received blame for not doing enough to gain the support of the American people on the policy. There was little public support for the policy and Speaker Gingrich publically said following the Brokaw interview that the policy would not go anywhere unless the President took a more active role in speaking out on the policy. The President needed to confront these criticisms and work with Speaker Gingrich and other members of Congressional leadership to ensure their support, both publically and privately. In a White House press briefing the next day, Press Secretary McCurry was asked why the President wasn't doing more to convince the people, McCurry retorted:

> "The President has been enormously active in pulling together a strong bipartisan consensus on what we must do in the interest of the United States to address the economic crisis in Mexico. He's convened a meeting with the bipartisan leaders and the Chairman of the Federal Reserve. He addressed a coalition of business leaders last week at the Treasury Department. He has devoted a radio address to the subject of the Mexican Stabilization Act, carrying that message directly to the American people. He went into the State of the Union address and made a very strong and public appeal in front of a national television audience in order to build support for that package. Yesterday in addressing a forum of world economic leaders, he again sort of wove that argument into the case that he was making the importance of this in terms of the global economy. So in every point along the way and in every point continuing along the way that the President can help educate the American people about the necessity of doing this in the interest of the United States to

[39] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=51678. *Last Accessed*: June 25, 2010

> help protect our jobs, help protect our borders, he will make that case, make it public."[40]

Despite these efforts, President Clinton still continued to try to make the case for the policy. During January 31, 1995 remarks at a New England Presidential dinner, President Clinton announced and reiterated the necessity of action, stating:

> "And I know the surveys say that by 80 to 15, or whatever they said, the American people either didn't agree or didn't understand what in the world I'm up to in Mexico. But I want to say to you, it might be unpopular, but in a time of transition it's the right thing to do. Today, 2 weeks and a few days after the Mexican crisis presented itself, after meeting with the leaders of both parties in the Congress, I decided to commit to a loan guarantee of $20 billion, not $40 billion, from the Emergency Stabilization Fund, something within the control of the President, with the support of the leaders of Congress of both parties.
>
> We've now gotten countries, other countries through the International Monetary Fund, to kick in about half what we need, which is a good thing. But we couldn't wait for 2 more weeks of congressional debate. I don't blame the Congressmen for wanting to ask questions. I don't blame them for not wanting to vote on this. It's a hard sell. It's pretty hard to explain in south Boston or up in Dover, New Hampshire, why this is a good deal for people in New England.
>
> But here's the basic problem. Those folks got into a little economic trouble, but they didn't deserve as much as they got, because a lot of the international financial markets today are controlled by a hundred thousand different forces and when a speculative fervor starts in one direction, sometimes it's hard for it to stop when there's been some proper economic balance struck. But they've got a good democracy. They believe in free market economics. They buy tons of our products. They're our third biggest trading partner.
>
> Why is this in the interest of the people of New England? Well, New Hampshire's unemployment rate was 7.4 percent when I took office, and it's 3.8 percent now. And a big reason is they're exporting more. That's just one example.
>
> So our third biggest trading partner is in trouble. And they didn't ask us for a grant. They didn't ask us for a loan. They didn't ask us for a bailout. They said,

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[40] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=59522. *Last Accessed*: June 25, 2010

> "Would you cosign this note? And by the way, if we get in trouble and can't pay, we've got a whole bunch of oil and we'll give you some. You can sell it and put the money in the bank." That's pretty good collateral. Near as I can figure, even 10 years from now we'll still be burning oil. We'll be able to use it. We'll be able to turn it into money. It will be worth something at the bank. And they said, would you help? So we got a $40 billion trading arrangement. It's jobs for Americans, folks. Those who say, "Well, Clinton is just bailing out rich investors on Wall Street; most of them will do just fine." But if we lose markets, if we lose possibilities—a lot of people here have built factories and shut them down. They're hard to start up again when you've shut them down. You've got to go through up and down times, but it's an important thing. It's American jobs.
>
> We share a vast border down there. We have problems along that border, illegal immigration and narcotics trafficking. This government's trying to help us with both. If you have an economic and a political collapse, we have more illegal immigration, more narcotics trafficking, more misery on the streets of America, more anxiety for American taxpayers.
>
> This is the right thing to do, and I was glad to take responsibility for it. And I know it's not popular, but in a time of change not all decisions which have to be made when they have to be made can possibly be popular. So I hope you will support it anyway. It's in the interest of building the future of the United States."[41]

President Clinton decided to act but still had a tough time persuading the American public that it was the right decision at the time. However, he was successful in gaining the support of " three former presidents -- President Bush, President Carter, President Ford have now announced publicly their support for the economic package, as well as six former Secretaries of State, five former Secretaries of the Treasury, six former Secretaries of Commerce and five former Special Trade Representatives, and a very impressive list of others who are concerned about what a failure to move quickly would

[41] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=50653. *Last Accessed*: June 25, 2010

mean to our economic interests and to the lives of millions of American families whose livelihood depends on export activity to Mexico."[42]

Convincing the American public he was taking the right action would be a big game of “what ifs” at the time. Ultimately, he decided that the best political strategy would be to let he policy play out rather than waging the enormously difficult task of convincing the American people he was doing the right thing—a task that would likely cost him more in approval ratings than he would ever gain strides in attempts to convince the people a Mexican bailout was the right policy. What Clinton really had to do was convince Speaker Gingrich to not demagogue the issue. He gained the necessary support to enact the policy and saved his efforts for other endeavors.

Administrative and Statutory Tools

President Clinton realized the need for action; he just had to find the means to justify executive action without Congressional legislation. Clinton strongly believed that economic policy was an extension of foreign policy. The executive needed to make economic policy a priority and take leadership on the issue. When the legislative branch indicated it was not willing to provide swift action or possibly any action at all, Clinton knew the executive needed to act unilaterally. He then tasked his advisers with determining the means of power for the executive branch in this particular instance.

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[42] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=59523. *Last Accessed*: June 25, 2010

The recommendation from Clinton's task force on the issue was that the President use the Treasury's Exchange Stabilization Fund (ESF) to stabilize the situation. This fund was reserved for currency interventions and not intended for loans. The appeal of these funds is that the President could use them through his executive powers and did not need the concurrence of Congress or the Courts (Hamilton 2007). The ESF had been established in 1934 in an effort to minimize currency fluctuations after the U.S. took the dollar off the gold standard. The aid package was promised to Mexico on January 31, 1995 and regular disbursements of the money were made to the Mexican government beginning in March of that year. This aid package was enhanced by the International Monetary Fund's (IMF) offer to extend $18 billion in aid to Mexico if the U.S. would agree to act (Clinton 2005).

The President relied on his managerial powers over the bureaucracy to aid the Mexican government's economic woes rather than attempting to create legislation through Congress, which would be both time consuming and likely to result in failure. Leadership in the bureaucracy was important to the policy's success. However, Clinton faced challenges when selecting the right people for the job who could assist him in being a policy leader and leader of the bureaucracy during a crisis.

Clinton's Bureaucratic Leadership: Selecting Key Advisers

Clinton came to office with little economic experience or experience in Washington DC. As a Washington outsider, Clinton was not familiar with many of the policy experts familiar with executive politics. His experience had been in Arkansas politics but there were key figures throughout his campaign whose advice he heavily relied upon. The key advisors to Clinton were his wife, Hillary Clinton and Vice President Al Gore (Burns 1999). Still, Clinton needed to create a team of advisors familiar with economic policy.

When selecting economic advisers, Clinton tended towards pro-business leaders instead of the traditional big government Democrats (Suzuki 1993). A key re-appointment involving an individual who came to be known as the leader of economic prosperity was Federal Reserve Chairman, Alan Greenspan. Alan Greenspan, Chairman of the Federal Reserve, played an important role in economic policy (Burns 1999). An interesting relationship developed between Clinton and the Federal Reserve and he refrained from publicly criticizing Federal Reserve policies or its leaders. A top economic advisor, Laura D'Andrea Tyson explained that, "We decided early on that the financial markets could misinterpret criticism of the Fed. And the Fed itself might react in unpredictable ways" (Quirk and Cunion 2000). Essentially, the Clinton administration preferred a peaceful coexistence with the Federal Reserve as long as policies went positively. Besides this key appointment, there was clearly a mission behind his economic policy team appointments.

As apparent by his appointments, Clinton leaned towards a fiscally conservative stance. He nominated Senate Finance Committee chairman, Lloyd Bensten, as Treasury Secretary. Robert Rubin was nominated as his Chief of the new National Economic Council. Rubin would succeed Bensten as Treasury Secretary after Bensten's retirement and was sworn into office in January 1995. Leon Panetta and Alice Rivlin were nominated to head up the Office of Management and Budget (OMB). Robert Reich was nominated as Labor Secretary and Laura D'Andrea Tyson was nominated as head of the Council of Economic Advisers (Waddan 2002). There were some more liberal officials appointed as well, but these individuals were not appointed to key economic administrative areas.

Coming from Arkansas and being somewhat of a Washington outsider, Clinton's economic team contained many members that he had little previous experience working with. He recognized the value of having experienced policy veterans familiar with the ways of Washington for his economic team in order to make it work. Clinton did not have a personal relationship with Bensten, Panetta, and Rubin but they all had stellar credentials when it came to economic policy and budgets (Harris 2005). Clinton learned early in his administration that he needed to surround himself with skilled Washington insiders with the knowledge to achieve policy success.

Clinton's administrative style was to form a team to handle problems and get the advice of a multitude of advisers. However, as in the other cases reviewed, the person relied on the most in these situations was the Secretary of the Treasury. It was the Secretary of the Treasury that identified the problem, devised a solution, and implemented the plan. Appointing a skilled and trusted Treasury Secretary is very important, as he or she is the leader of economic policy for the Cabinet. When Bensten retired, Clinton had enough familiarity and faith in his abilities to appoint Rubin as Treasury Secretary.

Clinton and his economic team met every day of the week in the first few months of his administration. They would again take priority when the Mexican peso crisis presented itself. Clinton placed significant trust in Rubin and had a high level of faith in his abilities. The two had similar styles when it came to work (Harris 2005). It was Rubin who first presented the Mexican economic crisis to Clinton. Rubin and his deputy Larry Summers had gone to the White House on January 10, 1995 for Rubin's swearing in ceremony. In conjunction with this ceremony, Rubin presented the President with "the first crisis of the twenty-first century", as named by Speaker of the House Newt Gingrich. This crisis was the impending collapse of Mexico's financial system (Hamilton 2007).

Clinton established a task force, headed by Treasury Secretary Rubin to deal with the crisis. There were a diverse group of members on this task force who were not economists, such as deputy National Security Advisor, Sandy Berger (Hamilton 2007). This menagerie of individuals represented Clinton's conception of economic policy as being more than just a domestic or international issue. Rubin and his team successfully devised a plan to address the Mexican peso crisis through only executive authority, bypassing any need to work with Congress for legislation.

Still, the Mexican loan guarantee policy drew mixed results from members of the Clinton advisory team. Federal Reserve Chairman Alan Greenspan supported the policy. Despite support of the Federal Reserve, there were still members of Clinton's own administration that did not support the plan. His political advisor, George Stephanopoulos, thought the Treasury had misspoken on billions of dollars and meant millions; upon clarification, he decided the policy would cripple Clinton's political career. His Chief of Staff, Leon Panetta, favored the loan but feared that it would cost Clinton the 1996 presidential election if Mexico failed to pay the U.S. back (Clinton 2005). The policy was a huge risk and some Clinton advisers feared the ramifications if the policy failed to work as expected.

Standards of Evaluation

President Clinton likened economic policy to foreign policy, which determined his approach to the economic crisis emerging in Mexico. Initially, President Clinton was engaging in a non-intervention strategy and carefully monitoring the situation. There was also the possibility that Congress or another country would take action that would change the need for the American President's need for a response. Yet, while monitoring the events, the crisis grew in magnitude each day and it became clearer that swift action would be needed to address the crisis.

Soon it became apparent that other actors were not going to be able to intervene. Yet the need for action was important to President Clinton. Once Congress voiced their support but inability to take action on the issue, President Clinton decided to intervene with the loan guarantee program suggested by his Secretary of Treasury. At this point, President Clinton engaged in a selective intervention strategy. A temporary program was put in place to address the immediate situation.

Context of the Executive Branch in American Politics

Time within the Presidential Administration and Electoral Cycle

President Clinton was at the end of his second year, barely into his third year of his first term in office when he decided to take action. There was no impending election for him to be immediately concerned about. His party was just past the midterm elections, though they did suffer some defeats. Therefore, he could take an action that was unpopular with the American public and not have to worry about his own survival in office. There was a lot of time for him to recover the support of the people before the next election.

It was inaction, however, that posed the greatest threat to his time in the White House. President Clinton was informed by his advisers of the situation in Mexico and the effects that it would have on the United States. If Clinton chose to do nothing, the contagion effects and additional ramifications of the collapse of the Mexican peso would be felt just in time for the next presidential election. Therefore, despite going against public opinion, Bill Clinton was taking a rational action when he determined to invoke the bailout program for the Mexican peso. If he decided not to act, he risked endangering his electoral prospects in the next election and he had already seen what poor economic conditions could do to an incumbent president—even to a president basking in the glory of a foreign policy success. In the long run, the plan worked well allowing him to recover support after the initial disproval of the policy by the American public.

The President and Congress

The role of Congress in this instance is particularly interesting. As in the case of Nixon, Congress would not act but also would not act to impede executive action. Prominent members of Congress agreed with and actually called for action but knew they did not have the support to take the action through legislative means. Too many Americans were opposed to aid. It would be electorally risky for Congress to act, especially given the fact there were no guarantees the plan would work in the first place.

Congress was very important to policy success. The White House needed either the cooperation of Congress to pass legislation or the support of Congress to take action to address the crisis. According to a briefing with the Chair of Council of Economic Advisers, Laura Tyson on January 27, 1995, "..the situation in Mexico and its implications to the United States depends very much on what happens with our efforts with the Congress. We have made a strong case, and it's been supported by the bipartisan leadership, of the need for a temporary loan guarantee to get the Mexicans through what is really a short-term liquidity crisis."[43] Clinton needed to be sure to address Congressional concerns to ensure action could take place.

Clinton's first task in assuring the loan guarantee to Mexico would succeed was to get Congress on board with this decision so they would not attempt to mount a challenge to the action. The evening that Clinton learned of this crisis, he called

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[43] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=59509. *Last Accessed*: June 25, 2010

Congressional heavyweights, Bob Dole, Tom Daschle, Newt Gingrich, and Dick Gephardt (Hamilton 2007; Clinton 2005). However, this crisis happened at a time when the Republican Revolution was underway in Congress and Newt Gingrich had taken over as Speaker of the House. There was a growing partisan divide. While Gingrich informed the President that he favored intervention into Mexico's economy, he also believed the measure would not win legislative approval. President Clinton needed to enact the measure using only his executive authority and had to be willing to accept all consequences if the measure failed (Harris 2005).

Congressional support for the policy was limited. Members of Congress would not support the policy because they feared it would damage their careers. There were no guarantees that this policy would work and it would be difficult to explain to the American taxpayers why such a large sum of their hard earned money was going to another country. Congress did support the President non-publically and key Congressional leaders including, Senator Bob Dole and Speaker of the House Newt Gingrich were very involved with Clinton and his cabinet in the Mexican peso stabilization plan (Hamilton 2007; Clinton 2005).

On January 28th, 1995 the need for action on this crisis intensified when the Mexican Finance Minister informed Rubin that Mexico owed more than a billion dollars on a loan due the next week and economic collapse was imminent. By January 30th, 1995 Mexico's financial reserves were down to $2 billion and the peso had declined another 10 percent. Rubin estimated that the Mexican economy had only 48 hours left before it would collapse. Both Gingrich and Dole believed that it would take Congress at least two weeks to pass an aid package for Mexico, and both were not certain that it would pass at all (Clinton 2005). Without legislative support, it was up to the executive branch to take action.

The legislative branch did not work to make things more difficult for the President. President Clinton was taking a unilateral executive action that was unpopular with the American public. Congress could have easily taken measures to make action more difficult, if not impossible for the President, as would be their right in a system of separation of powers and checks and balances. Some members of Congress even suggested taking action to prevent the President from acting on the situation in Mexico, but Congressional leadership recognized the importance of the problem, avoiding a political battle with the President. Congressional leaders were involved in the decision making process with the White House on the day the President learned of the crisis. Still, even Congressional leadership recognized a need for action to intervene in the Mexican economic problems; Congress just did not have the necessary public support to act. Congress could not act outside of the demands of their constituency for political reasons.

President Clinton's actions were the key to ensuring that the executive would be able to act without interference from Congress. He learned earlier in his administration, thanks to policy failures, such as the healthcare reform, that the President still needs the support of Congress to enact desired policies. The key to the Mexican loan guarantee program is that Congressional leadership was involved in the decision-making process within the White House very early on. Congressional leadership was informed of the crisis and the White House's desire to take action on the day the President became aware of the crisis. Some members of Congress were even included in White House briefings on the issue. (See Appendix C) Throughout the planning process, Congressional leadership was informed by the President of his plans to take action. It was no surprise to members of Congress when the President announced the loan guarantee because Congressional leadership was greatly involved in the decision-making process.

Some members of Congress wished to act to stop taxpayer money being used in a bailout program. However, by cooperating early with Congressional leadership, President Clinton was able to address the crisis with the support of Congress. This support came in the form of Congress not taking measures to stop executive action rather than passing any specific piece of legislation. In a message to Congress on March 9, 1995, President Clinton explained the actions he took and highlighted the agreement with Congressional leadership on the course of action:

> *"To the Congress of the United States:*
>
> On January 31, 1995, I determined pursuant to 31 U.S.C. 5302(b) that the economic crisis in Mexico posed "unique and emergency circumstances" that justified the use of the Exchange Stabilization Fund (ESF) to provide loans and credits with maturities of greater than 6 months to the Government of Mexico and the Bank of Mexico. Consistent with the requirements of 31 U.S.C. 5302(b), I am hereby notifying the Congress of that determination. The congressional leadership issued a joint statement with me on January 31, 1995, in which we all agreed that such use of the ESF was a necessary and appropriate response to the Mexican financial crisis and in the United States' vital national interest.
>
> On February 21, 1995, the Secretary of the Treasury and the Mexican Secretary of Finance and Public Credit signed four agreements that provide the framework and specific legal arrangements under which up to $20 billion in support will be made available from the ESF to the Government of Mexico and the Bank of

Mexico. Under these agreements, the United States will provide three forms of support to Mexico: short-term swaps through which Mexico borrows dollars for 90 days and that can be rolled over for up to 1 year; medium-term swaps through which Mexico can borrow dollars for up to 5 years; and securities guarantees having maturities of up to 10 years.

Repayment of these loans and guarantees is backed by revenues from the export of crude oil and petroleum products formalized in an agreement signed by the United States, the Government of Mexico, and the Mexican government's oil company. In addition, as added protection in the unlikely event of default, the United States is requiring Mexico to maintain the value of the pesos it deposits with the United States in connection with the medium term swaps. Therefore, should the rate of exchange of the peso against the U.S. dollar drop during the time the United States holds pesos, Mexico would be required to provide the United States with enough additional pesos to reflect the rate of exchange prevailing at the conclusion of the swap.

I am enclosing a Fact Sheet prepared by the Department of the Treasury that provides greater details concerning the terms of the four agreements. I am also enclosing a summary of the economic policy actions that the Government of Mexico and the Central Bank have agreed to take as a condition of receiving assistance.

The agreements we have signed with Mexico are part of a multilateral effort involving contributions from other countries and multilateral institutions. The Board of the International Monetary Fund has approved up to $17.8 billion in medium-term assistance for Mexico, subject to Mexico's meeting appropriate economic conditions. Of this amount, $7.8 billion has already been disbursed, and additional conditional assistance will become available beginning in July of this year. In addition, the Bank for International Settlements is expected to provide $10 billion in short-term assistance.

The current Mexican financial crisis is a liquidity crisis that has had a significant destabilizing effect on the exchange rate of the peso, with consequences for the overall exchange rate system. The spill-over effects of inaction in response to this crisis would be significant for other emerging market economies, particularly those in Latin America, as well as for the United States. Using the ESF to respond to this crisis is therefore plainly consistent with the purpose of 31 U.S.C. 5302(b): to give the United States the ability to take action consistent with its obligations in the International Monetary Fund to assure orderly exchange arrangements and a stable system of exchange rates.

The Mexican peso crisis erupted with such suddenness and in such magnitude as to render the usual short-term approaches to a liquidity crisis inadequate to

> address the problem. To resolve problems arising from Mexico's short term debt burden, longer term solutions are necessary in order to avoid further pressure on the exchange rate of the peso. These facts present unique and emergency circumstances, and it is therefore both appropriate and necessary to make the ESF available to extend credits and loans to Mexico in excess of 6 months."[44]

Congressional leadership was not silent on the issue. They vocalized their support of the President and his actions. President Clinton, Speaker Gingirch, Majority Leader Dole, Minority Leader Gephardt, and Minority Leader Daschle issued a joint statement on January 31, 1995:

> "We agree that in order to ensure orderly exchange arrangements and a stable system of exchange rates, the United States should immediately use the Exchange Stabilization Fund to provide appropriate financial assistance for Mexico. We further agree that under Title 31 under the United States Code, Section 5302, the President has full authority to provide this assistance. Because the situation in Mexico raises unique and emergency circumstances, the required assistance to be extended will be available for a period of more than six months in any 12-month period.
>
> The U.S. will impose strict conditions on the assistance it provides with the goal of ensuring that this package imposes no cost on U.S. taxpayers. We are pleased that other nations have agreed to increase their support -- specifically the International Monetary Fund today agreed to increase its participation by $10 billion for a total of $17.8 billion.
>
> In addition, central banks of a number of industrial countries, through the Bank for International Settlements, have increased their participation by $5 billion for a total of $10 billion. We must act now in order to protect American jobs, prevent an increased flow of illegal immigrants across our borders, ensure stability in this hemisphere and encourage reform in emerging markets around the world.

[44] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=51083. *Last Accessed*: June 25, 2010

> This is an important undertaking, and we believe that the risks of inaction vastly exceed any risks associated with this action. We fully support this effort, and we will work to ensure that its purposes are met. We have agreed to act today."[45]

The President needed the vocal support of Congress in order for the policy to succeed. Cooperating with leadership during the decision making process was integral to a successful policy.

The Role of the Mexican Government

Key leadership in Mexico helped stabilize fears within the Clinton administration. The new president of Mexico, Ernesto Zedillo, was an economist with a doctorate from Yale University (Clinton 2005). It seemed the perfect person for addressing the issue was in office. Thankfully for the Clinton administration, the policy seemed to work. By the end of the year, the Mexican economy was beginning to recover and Mexico was able to repay their loans earlier than expected.

The president of the United States and the President of Mexico cooperated throughout this situation. This policy decision would not have been a success without a joint effort on behalf of the Mexican government. President Zedillo's leadership was important to the policy being a success in Mexico. In a joint press conference with President Zedillo on October 10, 1995, President Clinton remarked on the situation saying:

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[45] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=59466. *Last Accessed*: June 25, 2010

"President Zedillo and I are joined in a common endeavor to advance the security and prosperity of both our nations. The events of the last year have demonstrated how crucial it is that we work together.

When the peso collapsed just 10 months ago, America's deepest interests were affected. The crisis threatened 700,000 Americans whose jobs depend on exports to Mexico. It raised the specter of severe dislocation along our 2,000-mile border and in emerging markets throughout Latin America and, indeed, throughout the entire world. By making tough decisions together, we steered through those days of uncertainty and averted far graver consequences. The United States put together an international package of support to stabilize Mexico's economy. And President Zedillo showed tremendous vision and courage implementing tough measures that laid the basis for recovery.

To be sure, the road ahead will be difficult. But the Mexican people, with President Zedillo's leadership, are determined to hold onto reform, courageously accepting today's hardship for the sake of a better tomorrow. Already we see the results. When the financial crisis struck in 1982, it took 7 long years before Mexico could return to international capital markets. Under President Zedillo's skillful guidance, it took just 7 months this time. Interest rates have fallen by half, monthly inflation is down, and the stock market is back up to pre-crisis levels. Last Thursday, President Zedillo informed me that Mexico would repay $700 million of our financial support ahead of schedule.

The North American Free Trade Agreement bolstered that recovery of confidence. Despite Mexico's economic downturn, American exports to Mexico still exceed their levels before NAFTA. And I want to emphasize that. The last time the Mexican economy was in crisis in 1982, there was a steep increase in tariffs, and Mexican exports were cut in half. It did not happen this time because of NAFTA. Therefore, if the NAFTA agreement had not been in place, the recent difficulties would have been far, far worse from the United States point of view. Our overall exports to NAFTA partners have grown by 25 percent since the agreement took effect, supporting about 340,000 good American jobs."[46]

[46] **Citation:** John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=50633. *Last Accessed*: June 25, 2010

Clinton's Actions in the Crisis: Lessons Learned

President Clinton's actions are different from the actions taken by the other presidents previously explored. For one thing, the public was not clamoring for the president to take action. In fact, the public had reached a consensus in their desire not to act on this matter. Clinton and his advisors were fully aware of the short-term price of action and of the long-term political and economic consequences of inaction. However, they elected to take a preemptive policy approach, acting before the crisis even presented itself.

Presidents who take preemptive action must be active and confident leaders with the ability to convincingly present their policies to the public. These leaders must have little to lose from the action and much to lose from inaction. In this case, the President had not been in office very long. Any electoral consequences related to this situation would occur many years down the line. Congress had wanted to act on this policy issue, but lacked the political capital to do so.

Many questions were raised regarding the use of presidential power during the Clinton administration, but the economy was not discussed very often. Clinton encountered many personal legal problems while in office, ranging from the Whitewater investigation to lawsuits brought by individuals such as Paula Jones (Adler and Genovese 2002). Clinton's legacy on economic policy is impressive but most of these events are out of his control. Taking action to stabilize the Mexican peso helped the U.S. economy avoid disaster over that period and the executive use of power in that situation was not challenged since it was an action deemed necessary by so many yet politically impossible by Congress.

The most positive reminder of the Clinton legacy is that he presided over one of the most prosperous eras in United States history with nearly every economic indicator improving during the Clinton administration years. The unemployment rate decreased from 7.3 percent to 4.7 percent between 1993 and 1998. During the same period, the poverty rate decreased from 14.8 percent to 13.7 percent and the inflation rate dropped from 2.9 percent to 1.7 percent. The Dow Jones industrial average doubled during that time and personal disposable income and new home starts increased. The federal budget went from a $290 billion deficit to a $75 billion surplus (Quirk and Cunion 2000).

While it seems many factors leading to the prosperity were out of Clinton's control, addressing the economic crisis in Mexico did help the United States achieve prosperity. However, the role in addressing this crisis is often ignored when it comes to looking at the prosperous years. These figures of economic success in the U.S. would not have been possible were the Mexican economy allowed to completely collapse in 1995.

The linkage of foreign policy and economic policy is also apparent in this example. Clinton saw economic policy as an outlet of foreign policy, while recognizing the importance of the economy to domestic policy. He pursued the economic policy of providing loan guarantees to Mexico because he had no strong domestic opposition. In this particular instance, the economic crisis clearly had international and domestic implications. However, the public was not demanding action as it had in the other cases. In fact, the public was opposed to actions, even though policy experts warned of the ramifications of inaction.

However, the implications of allowing the Mexican economy to fail, potentially leading to a domino effect of other economic collapses, worried experts. Congress, by its design, is to serve the American people and their wishes, and the American people did not wish to act. Congress recognized and fulfilled their duties to the people by not acting on this matter. Relying on members of Congress to take the need for action to their states and districts for support would have been a lengthy process and may never have come to pass. The Mexican economy simply did not have long to wait. Therefore, unilateral executive action was the best and only option for addressing this issue. Working with Congressional leadership early and throughout the policy planning process ensured the President would be able to take action.

Table Nine: Tools Used by the Clinton Administration

Type	Action
Barber's Character Typology	Active-positive
Administrative Tools	Used the Treasury Department and the ESF
Statutory Tools	Gold Reserve Act of 1934 creating the Exchange Stabilization Fund (ESF)
Standards of Evaluation	Selective Intervention Strategy
Administration Year	End of Second/First of Third Year
Legislative	-Congress took no public action; -Leaders privately supported
Bureaucracy	Treasury Department management of ESF
Foreign Government	-New strong economic leader in Mexico -IMF support
Political Party	Democratic executive and Republican Congress

Chapter Six
Conclusion

Presidential Management of the Economy

What can be said about presidential management of the economy? The president bears the brunt of responsibility for the performance of the economy, whether he can do anything about economic conditions or not. His actions will have some type of impact on the economy. The American public expects the president to be able to effectively manage the economy and to take action to prevent the bad times from being quite as bad or as long as they would be otherwise. However, directing economic policy is a complex issue and few presidents come into office equipped to manage it.

It is now considered common practice for presidents to take swift action to manage economic crisis. Presidents are seen as Managers of the Economy and when the economy is doing poorly, the nation looks towards the president to fix it. The President, along with good economic advisors, can also work to avoid economic problems. The president's increased involvement in economic management has institutionalized itself over time and the executive's management of the economy can dictate entire presidential administrations. Approaches to economic management differ depending on the president's personality and management styles, and the point at which the crisis occurs within the administration's term of office.

The Constitution does not explicitly place the President as Manager of the Economy. But the American public expects the President to manage the economy in spite of any Constitutional guidelines. Economic conditions have historically proven important for presidents dating back to George Washington. Presidential management of the economy institutionalized itself over time as presidential powers expanded. Modern presidents take action to address an economy in or heading into crisis. Laws, practices, and agencies have adapted to increasing executive involvement in economic policy making in the modern era.

However, it was the bold actions President Franklin Roosevelt took during the Great Depression that cemented the importance of the role the president has in managing the economy. Subsequent presidents were expected to take proper actions to ultimately avoid another Great Depression. With the globalization of society since that time, the president can also rely on his other presidential duties to strengthen the economy internationally.

Legal changes stemming from the Roosevelt administration made presidential action to manage an economic crisis possible. The Trading with the Enemy Act of 1917 was interpreted by the Roosevelt administration and amended by Congress in 1933 during Roosevelt's early political successes in office to allow the executive to take actions deemed necessary by the president during an emergency. Like many actions during the Roosevelt administration, this practice became commonplace in the era of the modern presidency. It became a powerful weapon for presidents in the fight against shaky economic conditions (The Harvard Law Review Association 1983).

The Act was amended in 1977 to the International Emergency Powers Act (IEPA) in attempts to place tighter controls on the executive at a time when executive power was seen as needing restraint. However, the amended act failed to produce strong limits on presidential power in addressing an economic crisis. Instead, it perhaps legitimized actions presidents took to address an emergency economic situation. The Supreme Court has upheld reliance on this act for extensions of executive power to address an economic emergency.[47] This act is similar to the War Powers Resolution's response to presidential powers to commit troops and is plagued by some of the same weaknesses. The President still has vast powers to confront an economic emergency and few restraints (The Harvard Law Review Association 1983).

Still, no matter what the president does, there is a business cycle to the economy and changes in the economy occur. While it may be difficult to link change in economic conditions directly to presidential actions in many cases, what the president says and does can impact how citizens perceive the economy. Individual perception of the economy is important and is reflected by consumer confidence ratings. People need to have confidence in the economy in order to spend their money and make the investments needed that keep the economy growing. The president can influence citizens' and investor confidence through his rhetoric. Demonstrating their leadership during an economic crisis can ease fears. Presidents take dramatic actions to address economic problems in order to demonstrate to the public that the government is willing to handle economic conditions.

The presidency is an institution of American government but it is also much more than that. The president is the symbolic leader of the nation and can draw the

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[47] Dames & Moore v. Regan, 453 U.S. 654 (1981)

nation together in times of crisis. Restoring hope to the people is especially important when faced with an economic crisis, as people want to know their money is safe, the value of the dollar is sound, and employment can be found. Confidence in economic conditions affects each individual's budget and the economy relies on individuals to keep it going. The public relies on the president to keep them focused on the good times that will come instead of the hardships they are currently experiencing.

Economic policy is extremely important to the president, but that importance can be overlooked in some instances. The economy's performance can make or break political careers. Economic policy is generally lumped with domestic policy when studying the presidency.

However, economic policy in today's global society is more than just a domestic policy issue. There are often international implications to economic policy in the United States, as well as the impact of economic conditions in other nations on the United States. Economic policy cannot simply be lumped into domestic policy. In many economic issues, the president has the ability to behave as he would in foreign policy, with little argument from domestic centric institutions. Much of this ability stems from the institutionalization of the executive branch's role in handling economic policy since Franklin D. Roosevelt's presidency and the expanding scope of an executive's emergency powers.

Reassessing the Two Presidencies Thesis

Economic policy is complex and many Americans, even those in policy making positions, do not understand the implications of many economic policies. There are many theories to be applied to real world situations that have many intervening variables. Economic policies also have elements of both domestic and foreign policy, particularly in the globalized society in which we now live. Economic policy is often considered within the realm of domestic policy, despite the fact they overlap.

According to Wildavasky, when examining the presidential role in policymaking, there is a divide between domestic and foreign policymaking. The types of policies are considered independent of one another. Yet, in today's globalized economy, there are domestic and foreign policy implications with economic policy. The United States depends on interaction with other nations for their financial health today. Economic activity in one nation can impact the economic performance of another, as evidenced by the recent subprime mortgage crisis. Therefore, when making economic policy, it cannot be considered simply a domestic issue or foreign issue. Often, there are very clear elements of both.

So how can presidents address economic policy issues, particularly when there are complex and overlapping implications of the policy? Economic policy can be approached either as a domestic or foreign policy issue. When there is an economic policy crisis, a president can assume greater power as their responsibility to improve these issues has increased over time. Presidents are noted for having greater abilities in creating foreign policy. However, part of this ability stems from the nature of the issue.

Quick action is sometimes necessary to avoid even greater economic fallout. Congress can run into difficulties implementing policies quickly enough to properly address problems. In all of the case studies, Congress recognized they would not be able to act quickly and expected the executive branch to take action on economic policies. When it comes to economic policy today, the president can take bold action when confronted with a major economic issue without facing huge barriers from Congress.

Congress is not always able to move swiftly and meet the constituents in foreign policy. The same can be said for economic policy. Congress has delegated greater responsibility to presidents in regard to foreign policy but also in addressing an economic policy crisis. Presidents have an extensive network of advisers in economic policy at their disposal to address an economic policy crisis. When these issues arise, Congress has delegated authority to the executive to address an economic crisis. Presidents, like with foreign policy, have greater powers they can rely on to address an economic crisis.

Presidents have been noted to have greater abilities in foreign policy because the idea is they are often addressing or preventing a crisis. Presidents have the same ability to take unilateral executive action or lead policies to address an economic crisis. It is up to the individual presidents as to whether or not and how they want to address the issue. The fact that an issue has crisis potential is where presidents can find a greater extension of their executive power. The American public expects the leadership of the executive to address any crisis that confronts the nation.

The president can address economic policy issues in much the same way he can address foreign policy issues, as conceptualized in Wildavasky's two presidencies thesis. Economic policy is an area in which unilateral executive action often becomes a necessity. Legal changes and practices of modern presidents make this common practice. It does not demand the same immediate attention as bombs descending on the nation; but, thanks to technological advances, the pace of economic change is swift.

Intricacies of Individual Presidents

Since we only have one president at a time, it is hard to compare how different presidents would act given the same situation. It is certain that the president in power can make a difference in the type of action that is taken. By analyzing personal characteristics of the president, we can determine which personal traits promote an individual to act and determine the type of action likely to be taken.

Each president brings to office a unique set of personalities and more importantly, a personal management style. For instance, Franklin Roosevelt came to office and addressed the banking crisis by closing banks. Advisers to his predecessor, Herbert Hoover, had largely created this plan; but it took Roosevelt's political craft and optimistic personality to make it happen. Since this example represents two presidents handling the same situation differently, it demonstrates how the president's unique traits, management style, and vision can change the response to a situation.

Personality is so important in dealing with a crisis because presidential power is broad in these instances. The President, by default, is the only actor in the American political system with the capability to address a crisis. Congress and the courts have deferred to the President in times of economic crisis and envision a broad use of presidential power to address the problem and improve economic conditions. The American people expect the President to act to address poor economic conditions.

It is an individual President's personal characteristics that will determine if, when, and how they act. Motivations of individual presidents determine action not strongly bound by the institutional structure of the office. Presidents are all constrained by the same contextual factors but it is how they view these constraints through their own personal perspectives that will determine their actions.

Certain contextual factors have been deemed in previous research to be important determinants of action on economic policy, with the existence of a electoral business cycle. Each of the case studies reviewed also demonstrates how important timing is in the electoral cycle. Presidents Roosevelt, Nixon, and Clinton all had learned that electoral success depends on the state of the economy. President Roosevelt entered office based on a mandate for economic change. The deteriorating economic crisis presented President Roosevelt with the prime opportunity for swift action at the beginning of his presidency. President Nixon took action he ideologically opposed; because he feared losing the upcoming election if he failed to take that action. Congress provided him with the power to act and his failure to act would have given the Democrats a prime opportunity to suggest the president wasn’t willing to take action to address the economic crisis.

The public wanted the president to take action for the Roosevelt and Nixon cases. However, the public was opposed to the actions President Bill Clinton ended up taking. Clinton was only able to take these actions because he did not fear electoral damages. He was barely into his first term in office and had time to recover in the public opinion polls from any ill effects of these actions. Besides, inaction would have had negative ramifications if collapse of the Mexican economy had impacted the United States as economists had predicted.

The presidency is an institution, but the man in the office influences performance. Character and other personal traits influence what actions a President takes in office. It is the individual characteristics of presidents that determine if they will take action on a particular issue.

Each of the Presidents in the case studies came from different backgrounds and had slightly different personalities. James Barber's typology of presidential character can be applied to presidential management of the economy. All of the presidents reviewed had active personality traits, which is needed to initiate action on economic policy. Presidents with the active-positive personality trait have more success with change orientated economic policy because they have the optimism and belief in their own abilities that brings hope to the public and allows them to implement policies that are in contrast to the status quo. The active-positive personality trait is best when implementing preemptive economic policy because these people have the self-confidence and optimism to create opportunities for action. Power is the character trait for active-positive individuals that bring positive results.

President Roosevelt's actions had much to do with his own personality. President Hoover's administration developed the policy of bank closures but it took Roosevelt to actually implement the policy. It was Hoover's personality that made him stick to a failing economic policy. Active negative individuals, such as Hoover, work hard to devise a solution to a problem but are unwilling to alter their plans to enact those solutions. This inaction is followed by negative and aggressive behaviors, such as Hoover's actions towards Roosevelt. President Hoover was not a politician and approached the banking crisis more as the leader of a bureaucratic agency. his personal traits left him poorly suited for the presidency, in contrast to President Roosevelt whose personal traits made him a skilled politician and one of the best suited individuals for the office of the presidency. Roosevelt's active-positive personality gave him the skills needed to motivate people to act and restore hope to the American people.

One reason President Nixon decided to implement the Wage and Price Controls was his desire to remain in power. Nixon's personality exaggerated this desire and persuaded him to take action to maintain his power. Nothing suggested Nixon would personally support this policy from an ideological perspective. Likewise, the American public did not favor the actions of President Clinton in the Mexican bailout program; but he had the optimism and policy foresight to push the program into action.

Passive personality traits are not well-suited for managing economic crisis. Passive presidents do not have the self-esteem or the genuine optimism to successfully navigate a change oriented economic policy. Passive-negative individuals are not willing to abandon their principles or delve too deeply into politics to pursue an electoral gain oriented economic policy. They do not have the optimism to lead the nation through a difficult economic time.

It is possible to manipulate passive-positive individuals into an electoral gain oriented economic policy; but it would still be difficult for them to implement a bold economic policy. Presidents with passive-positive personality traits react to economic conditions rather than initiate policy. They are also unable to create a preemptive economic policy. Likewise, passive-negative individuals respond to a problem rather than initiate preemptive solutions. Passive presidents will generally not be able to successfully address a major economic crisis issue.

Economic conditions matter to people concerned with winning elections. Americans often vote with their pocketbooks in mind and if they are not happy with the status of their pocketbooks, they blame the person in charge of the government. Since it is now commonly accepted that the president is the Manager of the Economy, particularly since the Roosevelt administration, the president in power receives the blame for poor economic conditions. If the economy is performing poorly as an election nears, a president will need to take dramatic actions to prove to the public that he is willing to address an economic issue. If he doesn't convince the public that he is addressing the economic issue, his electoral chances will be diminished.

Economic policy ideology is important to presidents; yet most presidents come to office with little to no economic policy experience, particularly at the national level. Even if they are ideologically opposed to action, as was the case with President Nixon, their personalities can push them to put these personal ideological beliefs aside to create a policy. What is evident to every president is that they need successful economic policies in order to maintain their success, ensure electoral results, and have the financial ability to enact policies in other issue areas.

Should voters be concerned with the candidates with no economic policy experience? Presidents do not need to be experts in economics to be known for their economic policies. Instead, presidents have a network of key advisers and agencies on which they can rely. The American people need to be more concerned with key appointments, such as the Secretary of the Treasury. From the executive standpoint, the people should be concerned about a president's individual personality and their leadership capability because that will determine their success in economic policy. Choosing advisers they can work with and whom can work within the bounds of their management styles is important to economic policy success. At that point, presidential management styles determine how the policy will be implemented.

Administrative Tools

Presidents always have a number of close advisors on which they can rely. With so many issues constantly needing attention, the president needs key advisors he can trust that are experts in their particular areas. A team of skilled advisors helps a president navigate an economic crisis. Influential advisors can even influence presidents to take actions they might not necessarily agree with, such as was the case with President Nixon.

When a president is left to confront an economic issue, his team of economic advisors becomes increasingly important. The Secretary of the Treasury was the leader of economic policy in each of the case studies explored here. This key individual helped identify and implement a solution to the problems and worked hand-in-hand with the president to address those problems. Presidents need to pay close attention to who they appoint as Secretary of the Treasury, because those individuals can either help them avoid a new economic crisis or resolve an existing economic crisis.

When it comes to an economic crisis, the Secretary of the Treasury is a very important advisor for a president. It was the Secretary of the Treasury that identified the problem, created a response, and later managed that response in each case studied. The president needs a Treasury Secretary with both experience and knowledge that he can trust to address major economic issues. He also needs an advisor he can trust and who can gain the respect and trust of the American public.

The bureaucracy is important to presidents in need of managing an economic crisis. The bureaucracy is needed to implement the policy and refine the details of the plan. In many cases, presidents spend the bulk of their time deciding on a policy rather than the minute details. There are simply too many different policies to consider and too many areas of policy presidents need to be concerned with. Presidents need to identify the means of taking executive action to address a crisis and then the way to go about doing it. Generally, especially with divided government and as Presidents progress within their administrations and loose the approval ratings and support of the

First Hundred Days, the President does not have the cooperation of Congress. Instead, they must rely on their management of the bureaucracy to achieve their policy goals.

The Congressional Role in Economic Policy

When looking at the growing powers the presidency assumed over time, Congress' shrinking role during times of crisis often comes under debate. Congress acts to approve presidential actions or plans after the fact but does not seem to initiate action when an economic crisis presents itself. Members of Congress represent their states or their districts and not the interest of the entire nation. An economic crisis is often a national or international crisis, which members of Congress are not equipped to properly address. Therefore, Congress delegated much of its power to the executive branch in dealing with an economic crisis. The Supreme Court also sanctioned an expanded presidential role in economic policy making in their post-New Deal decisions.

Congress is simply doing their job when it comes to management of the economy. They are not institutionally designed to handle modern international and some national economic conflicts. Congress since the Founding has had difficulty managing an economic crisis. The economy of the United States has grown and moved away from an agricultural based economy, as Thomas Jefferson envisioned. Economic issues are not generally isolated to a single state or district and that is who members of Congress represent. Additionally, most economic issues are complex and cannot be solved with a simple action.

Members of Congress are mindful of their constituencies, which prevents members of Congress from supporting certain policies. For instance, legislation that might be beneficial to the state of California and something the Senators from California would endorse might also harm the economies of New York or other states; Senators from New York and the other states would not be willing to support that legislation. Members of Congress would also not be able to address international economic problems that adversely impacted their districts. The American public often opposes their tax dollars being used in what seems to be sole support of another nation, as was the case for President Clinton and the Mexican loan guarantee program. In each of the presidencies examined, Congress was not able to muster enough support among its members to address an economic crisis and, in each instance, passed the responsibility of addressing the economic problems to the president.

Congress still has a role to play in economic policy. The pace of Congress is equipped for involvement in economic matters; but it seems to focus more of its energies on taxing and spending issues rather than addressing the economic problems of the day. Congress has an important role in the balance of power system created in the Constitution and is responsible for acting to reign in the powers of the executive. In the case studies examined, Congress did play a role.

In the case of Roosevelt and the bank closures in 1933, Congressional legislation passed a few months after Roosevelt's actions helped ease concerns with banking and solidified the actions Roosevelt had taken. A political battle between the legislative and executive branches prompted Nixon to act. President Nixon would not have had the ability to implement the wage and price controls were it not for Congressional action. Congressional leaders worked in conjunction with President Clinton to identify the need for action with the Mexican loan guarantee program. Overall, Congress still plays a role in economic policy; but seems to have delegated the lead role in economic policymaking to the executive branch. The executive has more powers to address an economic emergency. Congressional actions since the days of Roosevelt have solidified an increasingly prominent executive branch role in economic policy making.

Time in Electoral Cycle

Each of the presidents examined in these case studies were able to take the actions they did because of where they were in their electoral cycle. President Roosevelt came into office with the mandate to change the economic policy of the Hoover administration. This mandate was made possible by Roosevelt's unique abilities and personality. President Nixon, having learned from Republican electoral defeats when he was Vice President, took dramatic economic policy actions to address inflationary concerns before the impending election. Since this policy ran counter to his ideals, Nixon would not have pursued this course had the election not been approaching. Likewise, Congress probably would not have granted President Nixon such powers had the Democrats in Congress not been seeking an electoral debate issue of their own.

President Clinton took actions an overwhelming majority of Americans opposed. He was "safe" in these actions because it would be many years before Americans would head to the polls to reelect him. If left alone, however, it was possible the situation in Mexico could have deteriorated to the point of creating problems for the President during his reelection bid. In President Clinton's case, working to ensure Congressional backing was the most important element of achieving his policy goals. If he were pursuing this policy in an election, gaining cooperation from Congress on a policy so unpopular with the American public would have been more difficult, despite the need for action being the same. If President Clinton was successful in acting, his reelection campaign would likely be in jeopardy.

Lessons from the Case Studies

In all of the cases reviewed, the government branch taking initial action on economic problems was the executive branch. Each president has different motivations and approaches to the policies he creates, but these policies are not always long term policies. For instance, President Nixon took action that he knew would produce only short term benefits and would not be good for the nation in the long term. However, this action was good for his reelection prospects. Although presidents do not have the same electoral concerns as members of Congress, reelection does play a role in any president's decision on the economy.

In many cases, policies and measures put in place to address an economic problem are only for the short run. For instance, the czar positions created to address an economic problem are temporary positions. In order to ensure the nation maintains sound long term economic policy, there needs to be an involved bureaucracy that has the proper authority and can maintain independence from industry to ensure proper economic controls.

Presidents have enormous powers in the realm of economic policy and are charged with the task of solving the economic woes that grip the nation. Since the executive branch assumed a greater role in economic policy following the presidency of Franklin Roosevelt, the nation has still endured economic problems but those problems have changed. Presidents approach the economy depending on their personalities, leadership styles, and timing. Those personal attributes help determine how or if a president will address an economic problem.

Economic Policy Moving Forward: Obama and Today's Economic Challenges

While these case studies were not meant to focus on the current economic environment, it would be remiss not to briefly mention similarities to the current economic policy environment. Future applications of this work could certainly apply to this situation and those crises yet to come. Certain motivations encourage presidents to take action. Once the decision is made to take action, presidents then must determine the source of their power and navigate their actions in relation to the actions of Congress. Presidents must establish an economic advisory team capable of taking action and be prepared to work with the existing bounds of the bureaucracy or create new agencies to assist in implementation of a new policy. Czar positions can help navigate these policy changes.

President Barrack Obama was elected to office on the mantra of change and much of that change revolved around improving economic conditions. It seems that President Obama is a change oriented economic policy president. Consequently, the best correlation to this president so far would be to the presidency of Franklin Roosevelt.

One way President Obama demonstrated he was serious about change was to introduce the Economic Daily Briefing, similar to the Daily Intelligence Briefing. The Economic Daily Briefings have a small audience of intended recipients including President, Vice President, Treasury Secretary, the Director of the Office of Management and Budget (OMB), the Domestic Policy Director, and the Vice President's Chief Economic Advisor. It will be interesting to see if this institutionalizes itself in this and future administrations.[48] If so, the actions of Obama will help further institutionalize the role of the president as Manager of the Economy. If the Economic Daily Briefings are able to identify the most pressing issues of the day, they could assist the president in safeguarding the economy.

Since the executive branch has become the focal point for economic policy, the President needs to maintain oversight over economic conditions and be prepared to take action should a crisis present itself. As was the case with the Daily Intelligence Briefings, issues must be identified and a response created for any real policy actions to take place. The government already tracks various aspects of economic policy and condensing them in briefings will make the information more accessible to the

[48] http://www.whitehouse.gov/the_press_office/Press_Briefing_1-22-09/

President. Determining which issues meet the threshold for action will still be difficult because of the volume of information available.

Many presidential administrations have created czar positions, which are essentially task force officials appointed to address a major issue. President Richard Nixon helped institutionalize this process for the executive branch and there has been an explosion of czar positions in recent administrations. President Obama has embraced the use of czars and created many czar positions to address the current economic crisis, which the administration has deemed the greatest economic crisis since the Great Depression. However, if these actions were not met with the expected results, litigation will likely follow.

As far as personality is concerned, it would seem that President Obama would fall into Barber's active-positive typology (Hamburger and Parsons 2009; Coile 2009). President Obama believes he is capable of handling the duties of being President. He achieved much success before becoming president and, from his campaign activities and speeches; he seems to have hope for the nation and optimism for the future (Obama 1995; Obama 2008).

One of the first issues the Obama administration addressed after being elected to office was the economic crisis. There were a series of bailout initiatives included in a massive stimulus package aimed at fixing the ailing economy. A year after providing these initiatives, debate exists as to whether these actions have been a success. How could these actions be met with problems for an active-positive president with a mandate for change? One issue could be the problem many presidents before him have faced; presidents cannot do it all. There are many issues to tackle and not enough time to do it all. The Obama presidency could suffer some of the same problems the Carter presidency faced[49]; despite seemingly having what it takes to be a success. President Obama entered office with very high approval ratings. The job of president does not often bode well to pleasing the American people at all times.

It also takes time for the effects of economic policy to take effect, so it is likely the American people have just not realized the direct effects of any policy changes yet. An economic problem cannot be solved with a single action. Sometimes, many policies are needed to be put in place and a variety of economic issues need to be tackled to ensure a recovering economy. The Great Depression was tackled with the creation of many new federal agencies, a lot of new legislation, and many executive orders. Even still, time and the increased demand for goods created by World War II are likely what put an end to the Great Depression in the United States.

Solving major economic problems is certainly not an easy job. It takes intelligent, bold, and optimistic leadership. When times are tough, we the people need strong leadership to guide us through. This difficult task is a job we Americans have come to entrust to the hands of the president. The nation has endured many economic crises and will face many more in the future. Understanding the actions taken, the reasoning behind those actions and the success or failure of past policies is the key to helping us navigate our future.

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[49] President Jimmy Carter was a one term president. Criticism exists that he was too bogged down in minute details to achieve major successes.

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Appendix A: Key Economic Policy Speeches of Franklin Roosevelt

Roosevelt's Inaugural Address
March 4, 1933

I AM CERTAIN that my fellow Americans expect that on my induction into the Presidency I will address them with a candor and a decision which the present situation of our Nation impels. This is preeminently the time to speak the truth, the whole truth, frankly and boldly. Nor need we shrink from honestly facing conditions in our country today. This great Nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance. In every dark hour of our national life a leadership of frankness and vigor has met with that understanding and support of the people themselves which is essential to victory. I am convinced that you will again give that support to leadership in these critical days.

In such a spirit on my part and on yours we face our common difficulties. They concern, thank God, only material things. Values have shrunken to fantastic levels; taxes have risen; our ability to pay has fallen; government of all kinds is faced by serious curtailment of income; the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side; farmers find no markets for their produce; the savings of many years in thousands of families are gone.

More important, a host of unemployed citizens face the grim problem of existence and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment.

Yet our distress comes from no failure of substance. We are stricken by no plague of locusts. Compared with the perils which our forefathers conquered because they believed and were not afraid, we have still much to be thankful for. Nature still offers her bounty and human efforts have multiplied it. Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply. Primarily this is because rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure, and have abdicated. Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men.

True they have tried, but their efforts have been cast in the pattern of an outworn tradition. Faced by failure of credit they have proposed only the lending of more money. Stripped of the lure of profit by which to induce our people to follow their false leadership, they have resorted to exhortations, pleading tearfully for restored confidence. They know only the rules of a generation of self-seekers. They have no vision, and when there is no vision the people perish.

The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit.

Happiness lies not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort. The joy and moral stimulation of work no longer must be forgotten in the mad chase of evanescent profits. These dark days will be worth all they cost us if they teach us that our true destiny is not to be ministered unto but to minister to ourselves and to our fellow men.

Recognition of the falsity of material wealth as the standard of success goes hand in hand with the abandonment of the false belief that public office and high political position are to be valued only by the standards of pride of place and personal profit; and there must be an end to a conduct in banking and in business which too often has given to a sacred trust the likeness of callous and selfish wrongdoing. Small wonder that confidence languishes, for it thrives only on honesty, on honor, on the sacredness of obligations, on faithful protection, on unselfish performance; without them it cannot live. Restoration calls, however, not for changes in ethics alone. This Nation asks for action, and action now.

Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the Government itself, treating the task as we would treat the emergency of a war, but at the same time, through this employment, accomplishing greatly needed projects to stimulate and reorganize the use of our natural resources.

Hand in hand with this we must frankly recognize the overbalance of population in our industrial centers and, by engaging on a national scale in a redistribution, endeavor to provide a better use of the land for those best fitted for the land. The task can be helped by definite efforts to raise the values of agricultural products and with this the power to purchase the output of our cities. It can be helped by preventing realistically the tragedy of the growing loss through foreclosure of our small homes and our farms. It can be helped by insistence that the Federal, State, and local governments act forthwith on the demand that their cost be drastically reduced. It can be helped by the unifying of relief activities which today are often scattered, uneconomical, and unequal. It can be helped by national planning for and supervision of all forms of transportation and of communications and other utilities which have a definitely public character. There are many ways in which it can be helped, but it can never be helped merely by talking about it. We must act and act quickly.

Finally, in our progress toward a resumption of work we require two safeguards against a return of the evils of the old order: there must be a strict supervision of all banking and credits and investments, so that there will be an end to speculation with other people's money; and there must be provision for an adequate but sound currency.

These are the lines of attack. I shall presently urge upon a new Congress, in special session, detailed measures for their fulfillment, and I shall seek the immediate assistance of the several States.

Through this program of action we address ourselves to putting our own national house in order and making income balance outgo. Our international trade relations, though vastly important, are in point of time and necessity secondary to the establishment of a sound national economy. I favor as a practical policy the putting of first things first. I shall spare no effort to restore world trade by international economic readjustment, but the emergency at home cannot wait on that accomplishment.

The basic thought that guides these specific means of national recovery is not narrowly nationalistic. It is the insistence, as a first considerations, upon the interdependence of the various elements in and parts of the United States—a recognition of the old and permanently important manifestation of the American spirit of the pioneer. It is the way to recovery. It is the immediate way. It is the strongest assurance that the recovery will endure.

In the field of world policy I would dedicate this Nation to the policy of the good neighbor—the neighbor who resolutely respects himself and, because he does so, respects the rights of others—the neighbor who respects his obligations and respects the sanctity of his agreements in and with a world of neighbors.

If I read the temper of our people correctly, we now realize as we have never realized before our interdependence on each other; that we cannot merely take but we must give as well; that if we are to go forward, we must move as a trained and loyal army willing to sacrifice for the good of a common discipline, because without such discipline no progress is made, no leadership becomes effective. We are, I know, ready and willing to submit our lives and property to such discipline, because it makes possible a leadership which aims at a larger good. This I propose to offer, pledging that the larger purposes will bind upon us all as a sacred obligation with a unity of duty hitherto evoked only in time of armed strife.

With this pledge taken, I assume unhesitatingly the leadership of this great army of our people dedicated to a disciplined attack upon our common problems.

Action in this image and to this end is feasible under the form of government which we have inherited from our ancestors. Our Constitution is so simple and practical that it is possible always to meet extraordinary needs by changes in emphasis and arrangement without loss of essential form. That is why our constitutional system has proved itself the most superbly enduring political mechanism the modern world has produced. It has met every stress of vast expansion of territory, of foreign wars, of bitter internal strife, of world relations.

It is to be hoped that the normal balance of Executive and legislative authority may be wholly adequate to meet the unprecedented task before us. But it may be that an unprecedented demand and need for undelayed action may call for temporary departure from that normal balance of public procedure.

I am prepared under my constitutional duty to recommend the measures that a stricken Nation in the midst of a stricken world may require. These measures, or such other measures as the Congress may build out of its experience and wisdom, I shall seek, within my constitutional authority, to bring to speedy adoption.

But in the event that the Congress shall fail to take one of these two courses, and in the event that the national emergency is still critical, I shall not evade the clear course of duty that will then confront me. I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe.

For the trust reposed in me I will return the courage and the devotion that befit the time. I can do no less.

We face the arduous days that lie before us in the warm courage of national unity; with the clear consciousness of seeking old and precious moral values; with the clean satisfaction that comes from the stern performance of duty by old and young alike. We aim at the assurance of a rounded and permanent national life.

We do not distrust the future of essential democracy. The people of the United States have not failed. In their need they have registered a mandate that they want direct, vigorous action. They have asked for discipline and direction under leadership. They have made me the present instrument of their wishes. In the spirit of the gift I take it.

In this dedication of a Nation we humbly ask the blessing of God. May He protect each and every one of us. May He guide me in the days to come.

Citation: John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=14473. *Last Accessed*: June 25, 2010

Roosevelt’s Fireside Chat on Banking
March 12, 1933

I want to talk for a few minutes with the people of the United States about banking—with the comparatively few who understand the mechanics of banking but more particularly with the overwhelming majority who use banks for the making of deposits and the drawing of checks. I want to tell you what has been done in the last few days, why it was done, and what the next steps are going to be. I recognize that the many proclamations from State capitols and from Washington, the legislation, the Treasury regulations, etc., couched for the most part in banking and legal terms, should be explained for the benefit of the average citizen. I owe this in particular because of the fortitude and good temper with which everybody has accepted the inconvenience and hardships of the banking holiday. I know that when you understand what we in Washington have been about I shall continue to have your cooperation as fully as I have had your sympathy and help during the past week.

First of all, let me state the simple fact that when you deposit money in a bank the bank does not put the money into a safe deposit vault. It invests your money in many different forms of credit—bonds, commercial paper, mortgages and many other kinds of loans. In other words, the bank puts your money to work to keep the wheels of industry and of agriculture turning around. A comparatively small part of the money you put into the bank is kept in currency—an amount which in normal times is wholly sufficient to cover the cash needs of the average citizen. In other words, the total amount of all the currency in the country is only a small fraction of the total deposits in all of the banks.

What, then, happened during the last few days of February and the first few days of March? Because of undermined confidence on the part of the public, there was a general rush by a large portion of our population to turn bank deposits into currency or gold—a rush so great that the soundest banks could not get enough currency to meet the demand. The reason for this was that on the spur of the moment it was, of course, impossible to sell perfectly sound assets of a bank and convert them into cash except at panic prices far below their real value.

By the afternoon of March 3d scarcely a bank in the country was open to do business. Proclamations temporarily closing them in whole or in part had been issued by the Governors in almost all the States.

It was then that I issued the proclamation providing for the nationwide bank holiday, and this was the first step in the Government's reconstruction of our financial and economic fabric.

The second step was the legislation promptly and patriotically passed by the Congress confirming my proclamation and broadening my powers so that it became possible in view of the requirement of time to extend the holiday and lift the ban of that holiday gradually. This law also gave authority to develop a program of rehabilitation of our banking facilities. I want to tell our citizens in every part of the Nation that the national Congress—Republicans and Democrats alike—showed by this action a devotion to public welfare and a realization of the emergency and the necessity for speed that it is difficult to match in our history.

The third stage has been the series of regulations permitting the banks to continue their functions to take care of the distribution of food and household necessities and the payment of payrolls.

This bank holiday, while resulting in many cases in great inconvenience, is affording us the opportunity to supply the currency necessary to meet the situation. No sound bank is a dollar worse off than it was when it closed its doors last Monday. Neither is any bank which may turn out not to be in a position for immediate opening. The new law allows the twelve Federal Reserve Banks to issue additional currency on good assets and thus the banks which reopen will be able to meet every legitimate call. The new currency is being sent out by the Bureau of Engraving and Printing in large volume to every part of the country. It is sound currency because it is backed by actual, good assets.

A question you will ask is this: why are all the banks not to be reopened at the same time? The answer is simple. Your Government does not intend that the history of the past few years shall be repeated. We do not want and will not have another epidemic of bank failures.

As a result, we start tomorrow, Monday, with the opening of banks in the twelve Federal Reserve Bank cities—those banks which on first examination by the Treasury have already been found to be all right. This will be followed on Tuesday by the resumption of all their functions by banks already found to be sound in cities where there are recognized clearing houses. That means about 250 cities of the United States.

On Wednesday and succeeding days banks in smaller places all through the country will resume business, subject, of course, to the Government's physical ability to complete its survey. It is necessary that the reopening of banks be extended over a period in order to permit the banks to make applications for necessary loans, to obtain currency needed to meet their requirements and to enable the Government to make common sense checkups.

Let me make it clear to you that if your bank does not open the first day you are by no means justified in believing that it will not open. A bank that opens on one of the subsequent days is in exactly the same status as the bank that opens tomorrow.

I know that many people are worrying about State banks not members of the Federal Reserve System. These banks can and will receive assistance from member banks and from the Reconstruction Finance Corporation. These State banks are following the same course as the National banks except that they get their licenses to resume business from the State authorities, and these authorities have been asked by the Secretary of the Treasury to permit their good banks to open up on the same schedule as the national banks. I am confident that the State Banking Departments will be as careful as the national Government in the policy relating to the opening of banks and will follow the same broad policy.

It is possible that when the banks resume a very few people who have not recovered from their fear may again begin withdrawals. Let me make it clear that the banks will take care of all needs—and it is my belief that hoarding during the past week has become an exceedingly unfashionable pastime. It needs no prophet to tell you that when the people find that they can get their money— that they can get it when they want it for all legitimate purposes—the phantom of fear will soon be laid. People will again be glad to have their money where it will be safely taken care of and where they can use it conveniently at any time. I can assure you that it is safer to keep your money in a reopened bank than under the mattress.

The success of our whole great national program depends, of course, upon the cooperation of the public—on its intelligent support and use of a reliable system.

Remember that the essential accomplishment of the new legislation is that it makes it possible for banks more readily to convert their assets into cash than was the case before. More liberal provision has been made for banks to borrow on these assets at the Reserve Banks and more liberal provision has also been made for issuing currency on the security of these good assets. This currency is not fiat currency. It is issued only on adequate security, and every good bank has an abundance of such security.

One more point before I close. There will be, of course, some banks unable to reopen without being reorganized. The new law allows the Government to assist in making these reorganizations quickly and effectively and even allows the Government to subscribe to at least a part of new capital which may be required.

I hope you can see from this elemental recital of what your Government is doing that there is nothing complex, or radical, in the process.

We had a bad banking situation. Some of our bankers had shown themselves either incompetent or dishonest in their handling of the people's funds. They had used the money entrusted to them in speculations and unwise loans. This was, of course, not true in the vast majority of our banks, but it was true in enough of them to shock the people for a time into a sense of insecurity and to put them into a frame of mind where they did not differentiate, but seemed to assume that the acts of a comparative few had tainted them all. It was the Government's job to straighten out this situation and do it as quickly as possible. And the job is being performed.

I do not promise you that every bank will be reopened or that individual losses will not be suffered, but there will be no losses that possibly could be avoided; and there would have been more and greater losses had we continued to drift. I can even promise you salvation for some at least of the sorely pressed banks. We shall be engaged not merely in reopening sound banks but in the creation of sound banks through reorganization.

It has been wonderful to me to catch the note of confidence from all over the country. I can never be sufficiently grateful to the people for the loyal support they have given me in their acceptance of the judgment that has dictated our course, even though all our processes may not have seemed clear to them.

After all, there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people. Confidence and courage are the essentials of success in carrying out our plan. You people must have faith; you must not be stampeded by rumors or guesses. Let us unite in banishing fear. We have provided the machinery to restore our financial system; it is up to you to support and make it work.

It is your problem no less than it is mine. Together we cannot fail.

Citation: John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=14540. *Last Accessed*: June 25, 2010

Appendix B: Key Economic Policy Speeches of Richard Nixon

Nixon's Annual Message to Congress: The Economic Report of the President
February 1, 1971

To the Congress of the United States:

1970 was the year in which we paid for the excesses of 1966, 1967, and 1968, when Federal spending went $40 billion beyond full employment revenues. But we are nearing the end of these payments, and 1971 will be a better year, leading to a good year in 1972--and to a new steadiness of expansion in the years beyond.

We are facing the greatest economic test of the postwar era. It is a test of our ability to root out inflation without consigning our free economy to the stagnation of unemployment. We will pass that test. But it is a real test and we shall pass it only by doing all we are capable of doing.

The key to economic policy in 1971 is orderly expansion. While continuing to reduce the rate of inflation, total spending and total output should rise as rapidly as possible to lift the economy to full employment and full production. Fiscal policy must play its full and responsible role, and the economy's course in the year ahead will also reflect the extent to which the monetary and credit needs of economic expansion are met. With the stimulus and discipline from the budget that I have put forward, and with the Federal Reserve System providing fully for the monetary needs of the economy, we can look forward confidently to vigorous and orderly expansion during 1971.

At the same time we must be relentless in our efforts toward the greater stability of costs and prices that is the foundation for an enduring and full prosperity. Much has already been accomplished. Prices in the market place have been rising less rapidly, and some that usually change early have actually declined, responding to changing pressures in the market.

In some cases the response of costs and prices has been slow, as the result of insulation from market forces. Often these market problems have been created by the Government itself. Accordingly, the Government has a responsibility to prevent misuses and imbalances of market power which impede orderly operation of our free economic system. This Administration intends to carry out that responsibility fully and fairly.

To get the economy rising at the right rate, neither too rapidly nor too slowly, is never an easy task. Economic policy does not operate with the precision needed to keep the economy exactly on a narrow path. But fortunately absolute precision is not required. What is required is that we operate within a range where both unemployment and inflation are moving unmistakably downward toward our goal. The full resources of

Government, with the understanding and cooperation of the citizens, can accomplish that.

THE DUAL TRANSITION OF 1970

Faced with one of the largest inflations in American history we have sought first to stop its rate from speeding up and then to get the rate down. This has been done. The annual rate of increase of the consumer price index, which was 6.0 percent from June 1969 to June 1970, dropped to 4.6 percent in the last half of 1970. Wholesale prices, which usually move before the prices consumers pay, have slowed down even more, from a 5.3 percent rate in the first half of 1969 to a 2.1 percent rate in the second half of 1970. Because productivity began to rise, after earlier sluggishness, labor costs per unit of output rose much less in 1970 than they did in 1969, and this contributed to slower price increases.

While the Nation was making the transition to a less inflationary economy it was also making the transition to a lower level of defense spending. Men released from the Armed Forces have been out of touch with the civilian labor market and need time to readjust. Workers laid off from defense production are likely to be concentrated in particular areas, which are often not the areas where nondefense activity is expanding. Their curtailed purchasing power further tends to lower employment of others in their area. During 1970, the number of persons in military and civilian employment for defense was reduced by about 1 million. Most of these people have found work, and others will soon do so. But during the transition many were unemployed, and their number added to the total unemployment rate.

These two simultaneous transitions, from a wartime to a peacetime economy and from a higher to a lower rate of inflation, would inevitably be accompanied by some decline in output and rise in unemployment. The aim of our policy was to keep the decline in output and the rise in unemployment as small as possible.

Fiscal and monetary policy both became more expansive early in 1970, in order to get output rising again while the cost of living slowed its rise. This result was achieved. Total output declined only 1 percent from its high reached in the third quarter of 1969 to the first quarter of 1970; it leveled out in the second quarter and rose in the third. Fourth-quarter output was held down by the auto strike; without it, another increase would have been shown.

The timely shift of policy limited the decline of output; it also helped counter the increase in unemployment caused by the dual transition. The average unemployment rate for the year was 4.9 percent. At the end of the year, partly as a result of the auto strike, the unemployment rate was about 6 percent. About half of the unemployed had been without work for less than 6 weeks. Most of the unemployed who had lost their most recent job were receiving unemployment compensation.

THE ROAD TO ORDERLY EXPANSION

Our first task now must be to assure more rapid expansion and so to reduce the unemployment rate. We are now in a position to do that, while the progress against inflation continues. The restraint of 1969 and the slowdown of 1970 have set in motion strenuous efforts at cost reduction. These actions, as the pace of the economy quickens, will bear fruit in better productivity and costs. Prices have begun to rise less rapidly. There are the first faint signs of a retardation in wage increases in some sectors. Much of the anti-inflationary effect of the 1970 slowdown still has to be felt. And if the expansion is properly controlled in 1971 the conditions for further slackening of the inflation rate will remain. The expectation of continued rapid inflation has been weakened by the firm policies of the past 2 years and we must strengthen this growing confidence in the future value of money.

Forces now present in the economy, partly resulting from policies of 1970, make economic expansion in 1971 probable.
--The greater supply and lower cost of mortgage money has stimulated a 40-percent increase in the rate at which construction of new houses is started.
--Improved financial conditions are leading to a strong increase of State and local spending.
--Interest rates have dropped; the prime rate is down sharply from its peak of 8 1/2 percent.
--Consumers' after-tax incomes have increased and their saving has been high.
--In the early part of 1971 the economy will get a boost as the production lost during last year's auto strike is made up.
--Exports have been strong, and in 1970 were 14 percent above those of a year earlier.

These are powerful upward pressures, but existing and foreseeable expansionary forces in the economy are not strong enough to assure that output will rise as much as is desired and feasible. These forces must, therefore, be supplemented by expansive fiscal and monetary policies.

The full employment budget that I have submitted will do its full share in stimulating a solid expansion. Outlays will rise by $16 1/2 billion, or about 7 1/2 percent, between the current fiscal year and the next--appropriate for orderly expansion, but far short of the inflationary 15 percent average annual increases from 1965 to 1968. In addition, receipts have been reduced $2.7 billion by the depreciation reform which I have initiated to stimulate investment, jobs, and growth.

In fiscal 1971, the Federal Government will spend $212.8 billion, which is equivalent to the revenues the economy would be generating at full capacity. The actual deficit is expected to be $18 1/2 billion. In fiscal 1972, also, the planned expenditures are equivalent to the revenues we would get at full employment. How big the actual deficit will be next year, in fiscal 1972, will depend on economic conditions. If the economy follows the expected path of a vigorous noninflationary expansion, the deficit will decline to $11 1/2 billion. This combination of deficits is appropriate to the situation through which the economy has been passing. The budget moved into deficit during calendar 1970 as the economy lagged below its potential. Accepting this deficit helped to keep the decline in the economy moderate. It was a policy of not subjecting individuals and businesses to higher tax rates, and of not cutting back Federal spending, when the economy is weak because such actions would have weakened economic conditions further.

To say that deficits are appropriate in certain conditions is not to say that deficits are always appropriate or that the size of the deficit is ever a matter of indifference. Such a policy of free-for-all deficit financing would be an invitation to inflation and to wasteful spending.

As I stated last June, we need to abide by a principle of budget policy which permits flexibility in the budget and yet limits the inevitable tendency to wasteful and inflationary. action. The useful and realistic principle of the full employment budget is that, except in emergencies, expenditures should not exceed the revenues that the tax system would yield when the economy is operating at full employment. The budget for fiscal 1972 follows this principle.

Balancing the budget at full employment does not deny or conceal the deficit that will exist this year and almost certainly next year. It does, however, avoid large deficits when they would be inflationary, like the swing to a big deficit in fiscal 1968. It means that even when the economy is low we must not allow our expenditures to outrun the revenue-producing capacity of the tax system, piling up the prospect of dangerous deficits in the future when the economy is operating at a high level. Moreover, to say that expenditures must not exceed the full employment revenues draws a clear line beyond which we must not raise the budget unless we are willing to pay more taxes. This is an irreplaceable test of the justification for spending. It keeps fiscal discipline at the center of budget decisions.

Fiscal policy should do its share in promoting economic expansion, and our proposed budget would do that. But fiscal policy cannot undertake the responsibility of doing by itself everything needed for economic expansion in the near future. To try to do that would drive taxes and expenditures off the course that is needed for the longer run. The task of economic stabilization must be accomplished by a concert of economic policies. The combined use of these policies, starting near the beginning of 1969, finally checked the accelerating inflation that had kept the economy overheated for years. A turn of fiscal and monetary policies in a more expansive direction at the beginning of 1970 limited the economic decline and initiated an upturn. Concerted policies of expansion are needed now to lift the economy fast enough to make rapid progress toward full employment, and these needs will be fully met.

PRICE STABILITY AND FULL PROSPERITY

In a fundamental sense, as I have always emphasized, the control of inflation and the achievement of full employment are mutually supporting, not conflicting, goals. Nothing would contribute more to the new expansion than confidence that the threat of inflation is fading. As part of my program of expansion I propose to justify that confidence.

The basic conditions to bring about a simultaneous reduction of unemployment and inflation are coming into being. We are going to continue to slow down the rate of inflation in the middle of an orderly expansion. And we are going to do it by relying upon free markets and strengthening them, not by suppressing them. Free prices and wages are the heart of our economic system; we should not stop them from working even to cure an inflationary fever. I do not intend to impose wage and price controls which would substitute new, growing and more vexatious problems for the problems of inflation. Neither do I intend to rely upon an elaborate facade that seems to be wage and price control but is not. Instead, I intend to use all the effective and legitimate powers of Government to unleash and strengthen those forces of the free market that hold prices down. This is a policy of action, but not a policy of action for action's sake.

The process of reducing inflation is a process of learning. Business and labor must learn a pattern of behavior different from the one they have learned and practiced during the inflationary boom. Labor contracts and price lists cannot embody the expectation that prices will continue rising at the peak rates of recent years. Businesses cannot expect to pass all cost increases along in higher prices. The ritual of periodic increases in prices has no place in an economy moving toward greater stability.

These lessons are being learned. Most of all they are being taught by the facts of economic life today. Consumers are already imposing stern discipline in markets where sellers have not begun to adapt their pricing to the new, less-inflationary conditions of the economy.

But there are cases where these lessons are not being learned and actions have been taken or are under review. In those cases the Government will act to correct the conditions which give rise to excessive price and wage increases.

Actions were taken to augment the supply of lumber, and to deal with domestic copper prices that were out of line with world markets. To restrain increases in the price of crude oil, this Administration took steps to permit greater production on Federal offshore leases and to increase oil imports. Faced with inflationary price increases for some steel products, I have ordered a review of the conditions which permit or cause such increases, and threaten jobs in steel-using industries.

We have been particularly concerned with increases in the costs of construction. It is now more critical than ever to check inflationary wage and price increases in an industry where unemployment is high. The 1972 Budget provides for a large increase in construction expenditures. This should support increased employment in construction, but will do so only if the larger appropriations are not eaten up by higher wages and other costs. I have asked the leaders of labor unions and contractors in the industry to propose a plan for bringing the behavior of construction wages, costs, and prices into line with the requirements of national economic policy. A workable voluntary, plan will avert the need for Government action.

Those of us who value the free market system most cannot disregard the cases where it is being kept from working well. In some of these cases it is Government which limits the free market's effectiveness and Government has the means to make it work better. We must constantly review our economic institutions to see where the competitive market mechanism that has served us so well can replace restrictive arrangements originally introduced in response to conditions that no longer exist. We must also devise efficient solutions to problems that have become more urgent recently, such as those of pollution and adequate health care. Where inadequate market arrangements are delaying our advance toward full employment with price stability, we have a responsibility now to correct them.

In our market-oriented policy, our domestic goals and our international goals are interrelated. Success in our struggle against inflation will help to safeguard our international economic strength, and allow our highly productive enterprises and workers to compete in world markets. The liberal policy with respect to international trade to which .this Administration is committed will help keep price increases in check here while giving our farms, factories, and banks a profitable market abroad. At the same time we have to make sure that the burden of adjustment to changing conditions in world markets does not fall entirely on a few exposed industries.

With the cooperation of the private sector, an expansionary public economic policy will achieve a goal we have not seen in the American economy in many years: full prosperity without war, full prosperity without inflation.

In the record of progress toward that new prosperity, I am convinced that economic historians of the future will regard 1970 as a necessarily difficult year of turnaround but a year that set the stage for strong and orderly expansion.

Note: The President's message, together with the Annual Report of the Council of Economic Advisers, is printed in "Economic Report of the President, Transmitted to the Congress February 1971" (Government Printing Office, 1971, 306 pp.).

Citation: John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=3232. *Last Accessed*: June 25, 2010

Appendix C: Key Briefings during the Clinton Administration on the Mexican Peso Crisis

Press Briefing by Secretary of Treasury Bob Rubin, Senator Patrick Moynihan, Congressman Sander Levin and Chair of Council of Economic Advisors Laura Tyson
January 20, 1995

The Briefing Room

12:08 P.M. EST

MR. MCCURRY: Good afternoon, everyone. Given the interest I detected from you earlier about the administration's effort to gain support for the economic support package for Mexico, I thought it might be useful to you to have an opportunity to talk to the Secretary of the Treasury and the Chair of the Council of Economic Advisors, along with two special guests. It's a pleasure to welcome to the White House Senator Moynihan and Congressman Levin.

I'll turn the program over to Secretary Rubin, and he will conduct forthwith.

SECRETARY RUBIN: Thank you, Michael. I'm going to make a few brief comments, and then Dr. Tyson will speak, Senator Moynihan, Congressman Levin.

I think everything starts and ends with the gravity of this situation for the United States, and it is that gravity with respect to United States' interests -- jobs, standards of living, security, and because of the peculiarities of our Mexican border, illegal immigration -- that we had the truly extraordinary meeting in the Cabinet Room late last week with the President of the United States, the Vice President of the United States, the bipartisan leadership of Congress, the Chairman of the Federal Reserve Board, myself. And at that meeting, as you know, all concerned committed themselves to dealing with -- to dealing effectively with this issue, and again, because of its effect on United States' interests.

A great deal of work is going on every day. And I think it's fair to say that there is substantial momentum. We absolutely insist, as you know, on strong economic conditions to protect our loan guarantee. Many people have concerns outside of the immediate economic arena, well-thought-through, legitimate, serious and sincere concerns. It is not clear how much can be accommodated in this vehicle with respect to those concerns, but there's a lot of work going on. But when all is said and done, it all comes back to the same thing, and that's the same issue which caused this extraordinary meeting in the Cabinet Room late last week and the commitment to resolve this, and that is the interests of the United States affected by the financial integrity in Mexico and the possible spillover effects to other parts of the world.

We have been in touch this morning, in fact within the last half hour, with the Speaker's office -- the staff of the Speaker's office. He is committed, as are all the other members of leadership, to getting this done. There will be a lot of issues, there will be a lot of debates, there will be a lot of discussions, there will be disagreements. But when all is said and done, the overriding concern is, as I said before, the enormous potential impact that not getting this done could have on U.S. interests. And that, in our view, is what will prevail and cause this legislation to be successful in Congress.

I think with that, what I will do is turn the podium over to Chairman Tyson, who will discuss the economic ramifications of this matter. We also, by the way, received a strong letter, or I should say, former President Bush issued a strong letter supporting this effort, and for exactly the same reasons; his recognition of the enormous gravity of not dealing effectively with this matter.

Laura.

DR. TYSON: Thank you very much. The administration has been hard a work on both negotiation but also analysis. And we've been working hard with the Council and Treasury and other members of the economic team to really put together an assessment of what this does mean for the American economy. And I think it's important to keep in mind some facts here: Number one, 700,000 jobs in the United States currently depend upon exports to Mexico; exports to Mexico are critically important to many states.

If you look at Texas for example, $13 billion, or 30 percent of their exports just about, go to Mexico. Other important states involved here are California, Michigan -- the Treasury will be coming out actually this weekend with a state-by-state analysis of the breakdown of jobs and exports related to Mexico. So the first thing is jobs, incomes and exports of the United States. United States depend very much on a prosperous Mexico.

Second, immigration. If you look at standard models of immigration flows, you note that they depend very much on job availability in various locations and wages in various locations. And it is in our estimate, which is now being confirmed by other independent scholars, that if Mexico doesn't get through this crisis, one could see as much as a 30 percent increase in immigration flows. That's about a half a million people.

A third way to think about our interest is possible spillover effects. There's a really important danger here of contagion effects to other emerging markets. We've actually seen increased volatility in other emerging markets and we see some signs that if Mexico doesn't get through this liquidity crisis, in fact, one could see spillover effects to other emerging markets. Since we have become increasingly interconnected with emerging markets, both through financial flows and trade, we estimate that it's at least possible that over the next two years if this contagion factor were big enough, it might cost a percentage point off of our GDP growth in the next two years. So those are big numbers, and we want to make sure that the contagion effect, in fact, is not felt.

Finally, I want to end simply by emphasizing what we've said many times before. This kind of approach is based on our view that Mexico has sound fundamentals in place for its long-term economic prosperity. It is on the right road to privatization, to marketization. It has a very sound fiscal situation in Mexico. It has a good -- it has had very much improved inflation performance. So it is a good fundamental situation in Mexico.

This is a liquidity crisis. It's a crisis of confidence. It's the kind of crisis which costs very little -- in fact, no current budgetary cost -- to deal with, but if we let go, could cost very much in terms of lost jobs, lost incomes, and lost exports to America.

Thank you. And now it's my pleasure to introduce Senator Moynihan.

SENATOR MOYNIHAN: I'll just pick up where Dr. Tyson left -- that this is a crisis that affects all Americans. And the Congress surely wants to respond, as the leadership has already done in both parties in both bodies to a crisis that can be dealt with effectively and quickly, and absent which we have real dangers. Did you say we might lose a point in GDP?

DR. TYSON: This would be with contagion in other financial markets, which is very possible.

SENATOR MOYNIHAN: Yes, yes. And you lose that forever. It just goes on the rest of your lives. And that would be about a quarter of what you'd expect, right?

DR. TYSON: Yes.

SENATOR MOYNIHAN: The Chair of the Council of Economic Advisors just suggested that a quarter of our economic growth in the next year might be --

DR. TYSON: Wait a minute. We're not --

SENATOR MOYNIHAN: Take that back. I said it. (Laughter.)

DR. TYSON: I have to say that the Senator does not yet know our economic forecast, which we, in fact, have not made public. (Laughter.)

SENATOR MOYNIHAN: But which will be 4.2 percent. (Laughter) --

I just want to say that those of us -- as you know, the NAFTA was a disputed judgment, and we were not uniform as we were on the GATT, which came off the Senate floor, I think, 86 to 12, something such as that -- the Uruguay Round -- a measure we've been dealing with some 1947 and familiar with.

In both bodies, the Uruguay -- the NAFTA was about a two-thirds, one-third vote, and not all of us were in the two-thirds. But we are all -- I hope that we're all -- all behind this action. It is in the American interest, and it is urgent and is moving along very well.

I think it's my role, I have the high honor and distinct privilege to introduce my colleague and friend, Sander Levin of Michigan.

SENATOR LEVIN: Thank you, Pat.

What happens in Mexico can affect Main Street, America. That's why I opposed NAFTA; that's why I'm very much in favor of moving on the loan guarantee . We really have no choice. Jobs are involved. I think we can look at conditionality. I think we have to do that. But the conditionality should relate to our trade relationship, our economic relationship with Mexico. And we can't load every issue on this loan guarantee issue.

You know, the crisis in Mexico today may be a two or three on the economic Richter Scale. I think if action isn't taken it could be a seven or eight, and the ripples would be felt throughout the American economy.

This should not become a political football. Speaker Gingrich indicated this morning again this should be a bipartisan issue. And I hope very much it is.

One last word: I've been in Congress a few years. I've seen government move quickly, and I've seen it delay. On the S&L crisis, for example, there was long delay. Everybody in America, surely middle America, paid a high price for that. We should not make the same mistake. We need to move on this. I think we need to move with intelligent conditionality and try to finish it next week.

Q: Is Representative Bonior on board? Do you have the support of the House Minority Whip?

CONGRESSMAN LEVIN: I am not sure what his position is on this issue. There are differences of opinion, as there were on NAFTA. My point is we can't replay NAFTA again in this issue. There are some issues that were involved in NAFTA that are involved here, including what will be the impact of a devalued peso. I think it could have an influence on import surges to the U.S. in manufacturing or agriculture. I think that the discussions between Mexico and the U.S. should address these concerns. But I don't think this bill should either become a replay of NAFTA, nor should it become simply a vehicle for loading on every outstanding issue between the two countries.

Q: Could one of you try to explain with some clarity how it is that this condition of the Mexican currency would have the effects you've described on the U.S. economy, I mean, for the average citizen who doesn't understand why he's got to put up money to support the peso? How does it work?

CONGRESSMAN LEVIN: Let the Secretary do that. And I think I understand it; otherwise I wouldn't be here. I think the people who live in my suburban, middle-income district have a stake in a loan guarantee, not a bailout. So the Secretary, I'm sure, in a few words can say to the American people -- I'm sure you can, Bob -- what you have at stake. Otherwise, we wouldn't be here.

If we were bailing out anybody or if it were just bankers involved, if it weren't typical American investors, people who work in factories whose products need to be exported to Mexico and who are concerned about the devalued peso lowering the prices in Mexico of manufacturing goods, so they pour in here -- if there weren't these potential impacts, we wouldn't be here today. So you have the pleasure.

SECRETARY RUBIN: I think you've actually heard it explained rather well. Let me say, the issue here is not supporting the peso. The issue here is a country that is, I think as Laura said, a fundamentally sound economy, but is overextended in terms of its short-term maturities. The objective is to reschedule those short-term maturities, and get them through what is, at the moment, a very difficult financial situation.

Mexico, developing countries, and transitional countries around the world, as I think Laura very well said, are really the great opportunity for this country in terms of exports as you look forward. The obverse of that is if you have a serious problem in Mexico, and if that spills over, everything that we have looked forward to -- and it can contribute so significantly to jobs, to standards of living, and for that matter, to security in this country -- can go in the other direction, and we can lose all of the positives that we had hoped to gain; and furthermore, have to deal with social, political and security turmoil, not only in Mexico, potentially, but countries around the world.

This is a very -- but, you know, whether you accept -- the best evidence of the gravity of this issue, and the seriousness of that argument, is really the extraordinary meeting that the President, the Vice President, the bipartisan leadership and the Chairman of the Federal Reserve Board had in the Cabinet Room when they all, having analyzed this, committed themselves to solve it.

Q: Mr. Secretary, you keep describing the overextension of the Mexico economy as if it's a, as Mr. Levin said, an earthquake, something that happened without any kind of ability to foresee it or predict it. But a lot of people on Wall Street were actually saying that, in fact, this wasn't a very good risk to be investing in Mexico. Certainly, people at the Treasury Department should have been tracking the economic policies, that the policymakers in Mexico were following. Could you address the objection that, in fact, what we are doing is we are encouraging the morale hazard question, that we are rewarding policies that were unsustainable from the outset?

SECRETARY RUBIN: I don't think we're rewarding anything in this case. The people in Mexico are going to pay an enormous price. The political leadership and the people of Mexico are going to pay an enormous price for the financial difficulty that they're in and it will be a price that they are going to pay for many years to come -- which is not, by the way, at our advantage.

I think the question is, do we go through with this program, in which case, over time, we believe Mexico has the potential to become once again a very good trading partner for the United States, although they're obviously going to have a difficult interim period; or do we not do this, in which case conditions will very likely be far worse in Mexico, and then not only Mexico, but elsewhere in the world.

Q: Is the administration fully committed -- do you believe that all the policies that were pursued by the Mexican government before the evaluation of the peso were absolutely correct and accurate?

SECRETARY RUBIN: No. The answer to that is, absolutely not, and that is why we are going to have strong economic conditions so that the --

Q: So could you tell us what the problem is, what the fundamental --

SECRETARY RUBIN: What fundamentally happened in Mexico is that you had a lot of reforms, which were very positive -- regulatory reforms, opening markets, privatizations. You really have a very different Mexico today than you had 10 years ago, largely due to President Salinas, though also to some extent his predecessor.

On the other hand, in a financial sense, as the Chairman of the Federal Reserve Board explained so effectively in that meeting in the Cabinet Room, they had an eight percent current account deficit and what, in a sense, was a fixed exchange rate. And that was not a viable long-term policy, and that's how they got themselves in this difficulty.

And I will tell you, without question, without reservation, without equivocation, we will have strong economic conditions that will protect the economics of this loan guarantee program.

Q: Are Democrats going to have to back off on criticizing Speaker Gingrich in order to get this through? And what do you make of Congressman Leach's remarks about this?

CONGRESSMAN LEVIN: I think the Speaker answered it this morning, saying he doesn't, he said, necessarily accept such linkage. I would say there should be no such linkage. We have to take this issue on its merits.

It's an important issue and not -- it's one thing to attach fiscal conditionality. We should, and the Secretary has said, and Dr. Tyson has said we will. I think we also can attach some conditions in terms of the impact of a devalued peso in terms of exports from there here and imports from here. That's all part of the economic picture. But we can't let this thing become a football so that it's affected and determined by what's going on on the floor in terms of unfunded mandates, or what's going on on the floor in terms of relations between the Speaker or Bob Walker and some member of the Democratic Caucus.

Look, I take the leaders seriously. Maybe that isn't in vogue these days. They have pledged on a bipartisan basis -- with the President and Dr. Greenspan, we're going to proceed on a bipartisan basis. My prediction is, when all the -- goes on, including the letter from Representative Leach, we will proceed on a bipartisan basis and pass it.

Q: You won't agree to back off --

CONGRESSMAN LEVIN: What?

Q: You won't say, okay, put out the word to back off?

CONGRESSMAN LEVIN: I'm not in favor -- the answer is, no. The answer is, people should not use this economic crisis in Mexico as the vehicle to accomplish something that's irrelevant to this economic problem. The people of the district I represent, which is a pretty typical middle American district, want problems solved in and of themselves. And they don't want every issue becoming a play thing to try to resolve other issues.

Q: Mr. Secretary, can you tell us something about the conditions? The initial reports from leaked drafts up on the Hill are that they are not very strong and that the Mexicans are objecting to specific strict controls demanded by the U.S.

SECRETARY RUBIN: I think as we're working this out --it probably is true in any negotiation, it's best not to discuss the specifics. But one thing -- and I'm just repeating what I said before -- I will assure you absolutely and without equivocation, this is not going ahead unless we have conditions that protect the integrity of these loan guarantees. Absolutely, period, and no question.

Q: contain penalties or performance clauses as opposed to just promises?

SECRETARY RUBIN: We have a structure which I think really it's inappropriate to discuss until we complete this that we think will -- it's a good question -- that will relate to the conditions that we think will assure conformance with the conditions.

Q: Has the Mexican government accepted those conditions?

Q: How will this affect other agreements that are pending with Chile? And can you talk about the wisdom of this interconnection between our economy and Mexico's and the other Latin American countries, from the Summit of the Americas and all these --

SECRETARY RUBIN: Well, you're raising a much broader and bigger and, I think, very important question. I think that, as the President so often said, there is a modern economic world that we are part of, and I think you can either turn back from it, which, as he so often says, cannot be a successful strategy; or you can deal with it effectively. And when you -- and that is really what he has geared himself toward in everything he's done -- education, training, and everything else.

When you get down to the specifics of this particular matter, he believes -- and I think rightly so -- that our great opportunity, or one of the great opportunities of this country is, a, to be competitive through productivity, education, training, all the rest; and then open markets around the world so that we can sell into those markets and export to them. And that really is, I think, the -- it's that combination that is the great opportunity for us in the modern world.

What we clearly are going to have to do internationally, internationally over time, is find ways of dealing with these kinds of problems because all the countries of the world are going to be affected by them.

Q: Mr. Secretary, are they going to pledge -- are the Mexicans going to pledge oil receipts as collateral for the loan guarantees?

SECRETARY RUBIN: The loan guarantees will have an assured means of repayment that will consist of the oil revenues from the exports of oil. And as you know, oil is a dollar-denominated commodity. And the purchasers of that oil will pay the price of that oil back into the New York Fed, and that will then be available if there is a default on the loans that are guaranteed.

THE PRESS: Thank you.

SECRETARY RUBIN: Thank you.

END12:29 P.M. EST

Citation: John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=59686. *Last Accessed*: June 25, 2010

Press Briefing by Secretary of State Warren Christopher and Secretary of the Treasury Robert Rubin

January 31, 1995

MR. MCCURRY: Good afternoon, everybody. I'm going to start, before I introduce the two Secretaries, start with a statement that is now being issued by President Clinton, by Speaker Gingrich, by Majority Leader Dole, by Minority Leader Gephardt and Minority Leader Daschle. This statement is in the name of all five, and it reads as follows:

We agree that in order to ensure orderly exchange arrangements and a stable system of exchange rates, the United States should immediately use the Exchange Stabilization Fund to provide appropriate financial assistance for Mexico. We further agree that under Title 31 under the United States Code, Section 5302, the President has full authority to provide this assistance. Because the situation in Mexico raises unique and emergency circumstances, the required assistance to be extended will be available for a period of more than six months in any 12-month period.

The U.S. will impose strict conditions on the assistance it provides with the goal of ensuring that this package imposes no cost on U.S. taxpayers. We are pleased that other nations have agreed to increase their support -- specifically the International Monetary Fund today agreed to increase its participation by $10 billion for a total of $17.8 billion.

In addition, central banks of a number of industrial countries, through the Bank for International Settlements, have increased their participation by $5 billion for a total of $10 billion. We must act now in order to protect American jobs, prevent an increased flow of illegal immigrants across our borders, ensure stability in this hemisphere and encourage reform in emerging markets around the world.

This is an important undertaking, and we believe that the risks of inaction vastly exceed any risks associated with this action. We fully support this effort, and we will work to ensure that its purposes are met. We have agreed to act today.

With that statement, I'd now like to introduce Secretary of State Warren Christopher and Secretary of the Treasury Bob Rubin who will brief you further on today's developments.

Secretary Christopher.

SECRETARY CHRISTOPHER: Good afternoon. By some ancient tradition, as you know, the Secretary of State is the Senior Cabinet Officer. It happens that, chronologically, I am, too. But I think you all know that Secretary Rubin has been the President's point person on this subject, and so I will not deprive you of him very long.

I did think it might be useful to give you some background of the situation. As you know, yesterday the peso had a very bad day. It dropped more than 10 percent. The prospects of default by the Mexican government on their obligations became very real. Last night, the White House was told by the Congressional Leadership the prospects of passage of the loan guarantee legislation were quite poor, especially in any time frame in the immediate future.

As we looked at the markets today in anticipation, we felt that it would be a very disorderly day, much more disorderly than yesterday if nothing were done. As a result, the President had urgent meetings last night and again early this morning. I think he faced a dire situation where he felt it was necessary to take firm leadership.

As you know, the President met with the Congressional Leadership this morning and, essentially, he laid out to them the two alternatives that he thought that he faced at the present time. One alternative would be to go forward with the loan guarantee legislation, but to do so, he would do it in the face of their statements to him that they felt it was impossible to do this in the very near future, that it might be done over time with a long period of persuasion, but it was not possible to do it in the next short time -- period of time.

The second alternative that he had was to take executive action under the Exchange Stabilization Fund. That is a fund of about $25 billion which was created more than 50 years ago, and has now grown from its initial fund of about $20 billion to around $25 billion.

It is felt that $20 billion of that could be used for these purposes. In the last 24 or 48 hours, the IMF, recognizing the seriousness of this problem, has increased the amount that they could make available and that would make available $17.8 billion, so there is now availability of almost as much through this combination of the IMF and the Exchange Stabilization Fund as the earlier $40 billion of loan guarantees.

In his meeting this morning with the Congressional Leadership, the President said that while he initially had preferred to go the congressional route in order to have their full participation, he thought based upon their advice that time no longer permitted that, and so he was determined to go ahead and exercise when a President has to exercise at some point: firm executive leadership. He was prepared to go ahead with the second alternative, he asked for their support. He said he felt the chance of the program succeeding would be greater if he had their support, and I think during the course of the day it's been quite apparent that the markets would receive favorably, indications of support from Capitol Hill.

As Mike McCurry just indicated to you, the four congressional leaders have now signed a statement endorsing the President's action.

My judgment is that this was one of those moments of executive leadership. Time did not permit the education process that might have permitted congressional action, although the President had, about two weeks ago, received expressions of congressional support that had not ripened into congressional action; the situation was dire in Mexico. There was the risk of default and the problems that would involve for not only Mexico, but the United States and the world economy. The President took the action that he felt was necessary in this situation.

I think I would just say before I conclude that from my standpoint, the interests of the United States here are absolutely clear. We have a very strong interest in the stability of Mexico for a wide range of reasons. First, because they support -- their economy's purchases support about 700,000 American jobs. They are critical to us from the standpoint of many issues, such as narcotics, law enforcement, migration. So Mexicans' future is very important to the United States.

Second, this particular matter has ramifications well beyond Mexico. It affects not only Latin America, but the emerging economies of the world. The situation in Latin America has vastly improved in the last several years to the point where we have 34 democracies now. Much of that progress, particularly the economic progress, could be jeopardized if there were a situation in Mexico of the kind that I've described here. So I think it's important from that standpoint.

Finally, and perhaps most importantly, this was a critical test of American leadership. It will be read as that around the world. I think the President has grasped that test today and the action he's taken, I think, will be reflected over time as the right decision to take in a difficult situation, but where he -- perhaps going against the grain in the face of some public opinion polls that seem to be adverse -- took the action that he concluded was in the best interest of the American people. And from my standpoint as Secretary of State, it was an action that the United States will long regard as favorable.

Now, Bob Rubin can -- Secretary Rubin will be glad to spell out many more details than I have, and we'll both be glad to answer whatever questions you have. Bob.

SECRETARY RUBIN: Thank you, Chris. Secretary Christopher has exceedingly well expressed to you what this is about and what happened last night and this morning in what was really quite a dramatic and, I think, important set of meetings culminating, as Secretary Christopher said, in the meeting in the Cabinet Room at 8:45 a.m. this morning with the Bipartisan Leadership.

The program that we have today was really motivated by three considerations. One has just been explained to you: the bipartisan leadership informed the President that the Congress could not act in a timely fashion -- timely, relative to the circumstances that were developing in Mexico. Number two: financial distress in Mexico had reached proportions that were exceedingly troubling. The peso hit an all-time low yesterday; the stock market was down 8 percent. It was our view that if this was not dealt with and dealt with quickly, it would reach dire proportions very quickly. And thirdly, through the extraordinary good work of Under Secretary Larry Summers last night, the IMF increased its participation to $17.5 billion -- a multiple of the largest amount they have ever committed to any undertaking in the past. That expressed both their concern about Mexico -- concern parallel to ours with respect to its significance to the world's economies; and it also was, obviously, an enormously important component in being able to put together the package that we now have.

The package itself consists of the following elements: $20 billion from the Exchange Stabilization Fund, a fund first created in 1934. It's an existent fund. That will be used for either loan guarantees or loans, it will be subject to stringent conditions, and it will be supported by the oil facility that we have described with respect to the previous package.

There will also be a fee, and the fee will reflect the risks that we feel are associated with this enterprise, plus a supplemental amount to make sure that this is not a low-cost funding mechanism for the Mexican government.

Number two, it will be $17.5 billion from the IMF, and that will be intermediate term money, just as our own money is intermediate term money, also subject to stringent conditions with respect to the kinds of financial issues that created the problem that we now face.

Number three, there will be $10 billion from the BIS, which is basically a short-term stabilization facility. There will be $1 billion from a consortium of Latin American countries, and $1 billion from Canada.

Put together, the $37 billion of intermediate term money that we now have is the economic equivalent of the $40 billion loan guarantee that we originally contemplated. We will begin working immediately with the Mexicans to finalize the conditions so that the economic integrity of our loans, or loan guarantee -- whichever direction we take -- are protected, and we feel there is a very high probability this will be successful and reestablish the confidence in Mexico, causing private capital markets to again work, and allowing the strong fundamentals of the Mexican economy to reassert themselves, which was the premise of this entire effort to begin with.

Q: Does this mean that the United States has now moved from a position of seeking to guarantee loans to actually making loans?

SECRETARY RUBIN: We have it within our discretion to either extend loans or use the loan guarantee mechanism; we will do what we think is in the best interest of this country in choosing between the two.

No matter what we do, however, the maximum exposure that we can now have, whether in the contingent liability form of a loan guarantee or an absolute loan is half of what it would have been before when we had a $40-billion proposal.

Q: Well, why did you propose guarantees before and this now?

SECRETARY RUBIN: The prior program was envisioned as a loan guarantee program which, if put in place, we thought -- and I believe correctly thought -- would cause the private market to begin to flow -- private capital flows to begin in Mexico. I think this program will have exactly the same effect.

What we decided to do in this instance -- we could structure this as loan guarantees if we wanted to. The decision we made was to leave ourselves the discretion to do what we thought would work best.

Q: Is this a better plan than --

SECRETARY RUBIN: I would say that this plan, in terms of the likelihood of success -- and I think the likelihood is very high -- is the approximate equivalent of the prior plan; the prior plan was $40 billion, this is $37.5 billion. The big difference here, I would say, is that in this case, almost half of the money is non-U.S. money.

Q: Why didn't you do this the first time?

SECRETARY RUBIN: We didn't do it in the first instance for several reasons which Secretary Christopher explained. Number one, the President felt that a matter of this sort should be brought to Congress, and I think that was the right decision. But he then came to the point yesterday where three things happened: Number one, he was informed by the Bipartisan Leadership that Congress could not act in a timely fashion; number two, market conditions in Mexico had reached the point where we felt that financial distress was getting to a dire and, in fact, perhaps -- well, they're words secretaries of the Treasury should never use, so I will just say that we were getting to the point where we were very troubled; and, number three, we now had $17.5 billion of IMF commitment, which was a multiple of the amount that we had before.

So the President decided about 11:30 p.m. last night that he would act under the executive authority that he has to deal with what he viewed as a matter of grave national interest, and then he called the Bipartisan Leadership down this morning, they agreed on the gravity of the concern, and all four are now supporting this action and this plan.

Q: This $10 billion figure that you say is coming partially from the central -- this $10 billion figure is not a sure thing, that may be something that you'll get along the way?

SECRETARY RUBIN: I'm not sure -- you're talking about the BIS money?

Q: Yes. You say financial assistance -- is, they're considering providing it.

SECRETARY RUBIN: There are three essential pieces of money in here. There's our $20 billion, and the IMF piece, which will be approved at a board meeting tomorrow.

The $10 billion of BIS money is, I think, for practical purposes, assured. They had assured us of $5 billion and they're now increasing it to $10 billion. But the important thing to remember about the BIS is that while on the one had it's important, it's a short-term facility. The only intermediate term money we have is the rough equivalent of the $40 billion of loan guarantees that we were originally recommending.

Q: Mr. Secretary, is there enough unencumbered funds left in the Exchange Fund to support the dollar?

SECRETARY RUBIN: Yes.

Q: In the past year we've said that support --

SECRETARY RUBIN: I can assure you -- yes, we thought of this ourselves. (Laughter.) We have focused very carefully on making sure that we have preserved the capability of doing anything that we think we will need to do, if we decide to do anything, which me may or may not decide to do, and we don't comment on anyway.

Q: How close was Mexico, and how close is Mexico to defaulting on loans, in terms of days?

SECRETARY RUBIN: In our judgment, the financial distress had reached the point that it was absolutely imperative that the President act, and act now. And that was very much the President's view and the view of the bipartisan leadership this morning.

Q: What was the answer to his question? How many days?

SECRETARY RUBIN: That was the answer to the question. It was close enough so we thought it was imperative that we act now as opposed to the length of time it might have taken to get congressional legislation.

Q: Why was the administration having so much trouble to persuade both members of Congress and the public to support this bailout?

SECRETARY RUBIN: I think Secretary Christopher said it very well. This is a situation that needed time for explanation. It's a situation that, in our judgment and in the judgment of the bipartisan leadership, was clearly very much in the national interest. It was very interesting, when you've spent time on the Hill -- and I have done it every day since we've gotten started in this thing -- you consistently ran into two kinds of reactions, often within the same person -- almost always within the same person: On the one hand, a general sense that this in fact was a matter of grave national interest to this country -- jobs, standards of living, immigration, security; on the other hand, it was a very difficult situation politically. And I think Secretary Christopher said, it was simply a question of having enough time to work our way through the latter issue.

Q: If the Exchange Stabilization Fund works, what happens to the $20 billion specifically? Has it been used before for any such purpose within the last 50 years?

SECRETARY RUBIN: The Exchange Stabilization Fund has never been used for anything precisely like this, although it has been used for all sorts of stabilization activities. I think it's fair to say that this is unique in terms of the use of the Exchange Stabilization Fund. But there's absolutely no question that it's in the authority of the President.

In terms of how it will be done, it will be done tranches and no tranche will be released unless very stringent economic conditions are being satisfied.

Q: The political conditions that were being discussed on the Hill -- immigration, drugs, extradition. None of that was --

SECRETARY RUBIN: The conditions that will be involved here are the conditions that will protect the economic security of the taxpayers with respect to our funds. There are a whole host of bilateral issues that need to be dealt with, and perhaps Secretary Christopher would like to address that.

SECRETARY CHRISTOPHER: Well, we have had and will continue to have very close consultation with the Mexicans on the bilateral issues that you mentioned -- narcotics, law enforcement, migration. Indeed, within the next 30 days we'll be meeting in working groups with the Mexicans on border issues and on law enforcement issues.

My own judgment is that today's action will enhance our ability to achieve good results in those areas. I can tell you that just a few minutes ago, President **Clinton** spoke to President Zedillo, informed him of his decision today and also urged him to take action to give us their continued support on these bilateral issues. So we'll be going forward on these issues, but I think in an atmosphere where we have an enhanced opportunity to make real achievements.

Q: What are the conditions? Are you going to loan American taxpayers' money without revealing, in specific, what the conditions are?

SECRETARY CHRISTOPHER: There will be strong, tough economic conditions to support the integrity of the loans. With the IMF now in the matter to the extent they are, you can be sure the IMF conditions, sometimes criticized for being too stringent, would be appropriately stringent in this situation.

Now, with respect to the non-economic issues, both Secretary Rubin and I have frequently said that this particular transaction should not be encumbered by non-economic conditions. At the same time, we're going to be working very closely with the Mexicans on these political -- if you call political issues and non- economic issues and making steady progress on them as we have over time, enhanced by today's action.

Q: You had said that this is a test of the President's leadership. But why shouldn't people think that what this really shows is the President didn't have enough clout to get this deal passed through Congress?

SECRETARY CHRISTOPHER: No, the President, as soon as this issue arose, called the Congressional Leadership down here, obtained their support. We've been working for two weeks on Capitol Hill. The leaders of Congress concluded that it could not be accomplished on a timely basis, although they thought with continued presidential action it could be accomplished. But the timing was really urgent in the situation. So the President did what presidents often have to do, and that is, take the responsibility for protecting American interests, and I think that's the best test of American leadership.

Q: Chairman Greenspan said no plan will work unless Mexico alters its fiscal policies. He said that on the Hill today. I mean, what guarantees do you have from the Mexicans?

SECRETARY RUBIN: We have obviously spoken to the Mexicans at length today, and they will be saying something to the effect that it is Mexico's job to deal with their own problems and to put themselves on a sound basis. To help them do that and to augment their own determination to do that, there will be conditions dealing with the growth of domestic credit, with the growth in money supply, with the fiscal deficit -- although, as you know, they're in a surplus position, unlike some other countries -- and external borrowings by the public sector. There will also be transparency conditions, and there will be conditions with respect to reinforcing the independence of the central bank.

These conditions, as Secretary Christopher said, are in the process of being worked out by ourselves with the IMF. The IMF will impose these -- the IMF has the reputation for being exceedingly tough with respect to conditions. Some of these conditions will probably flow independently from the United States as well.

Q: Don't you usually work out the conditions before you put up the money?

SECRETARY RUBIN: We are going to have the conditions worked out before -- before any of the money is put up in the intermediate term facility, yes.

Now, we have, as you know, a short-term facility which is an exchange support system, and we probably will release some money from that today. But that -- it will be a relatively small amount. We have not had a history of disclosing the amounts involved in the Exchange Stabilization. But that is a short-term stabilization; that's not what this program is about.

Q: That's the $18 billion?

SECRETARY RUBIN: No, no, we're talking about a very small amount of money relative to anything we've been talking about.

The program we're talking about today is the program that is designed to reschedule their short-term debt to long-term debt, and that money will not be made available until the agreements have been worked out on the conditions.

Q: The final decision about whether the conditions have been met -- will those ultimately rest with the Treasury Department, or will they rest with the IMF?

SECRETARY RUBIN: The IMF, the Federal Reserve Board and the Treasury will all oversee compliance with conditions. We have the unilateral right to terminate if we feel in our own judgment that the conditions are not being satisfied.

Q: Have you asked Canada for any additional contribution besides the $1 billion which was previously announced?

MR. MCCURRY: I just want to thank Secretary Rubin and Secretary Christopher. We're going to take about a two-minute break, and I've got people who can get into some of these more detailed questions who will brief you ON BACKGROUND, although you've had the two Secretaries on the record.

Q: off Air Force One, or --

MR. MCCURRY: I'm not sure. Sandy Berger just came in and passed that on, and I asked him to check and see if that was off Air Force One or not. I'm not sure if the President has landed yet at Boston.

Q: Just one other thing. The education process the Secretaries talked about -- this having been done now, does the President still have to go out and do something to overcome these polls that have been saying that massive --

MR. MCCURRY: The President feels -- having taken this very firm action today, the President feels a continuing responsibility to help Americans understand why it was in the interest of the United States and why he judged it to be in the interest of the United

States to take this action, and will continue to help Americans understand why he acted as he did today.

Q: Did the President personally talk last night to members of Congress on the phone, or was that just Leon and other people?

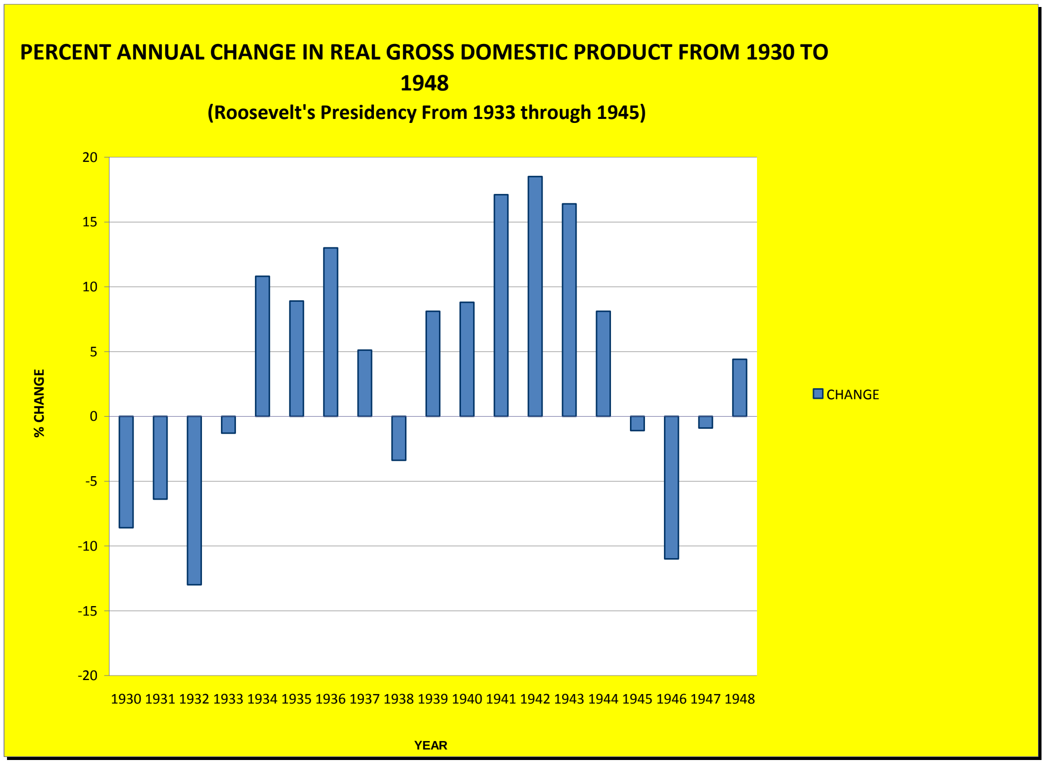
MR. MCCURRY: I don't know the answer to that, Rita, we'll check on that.

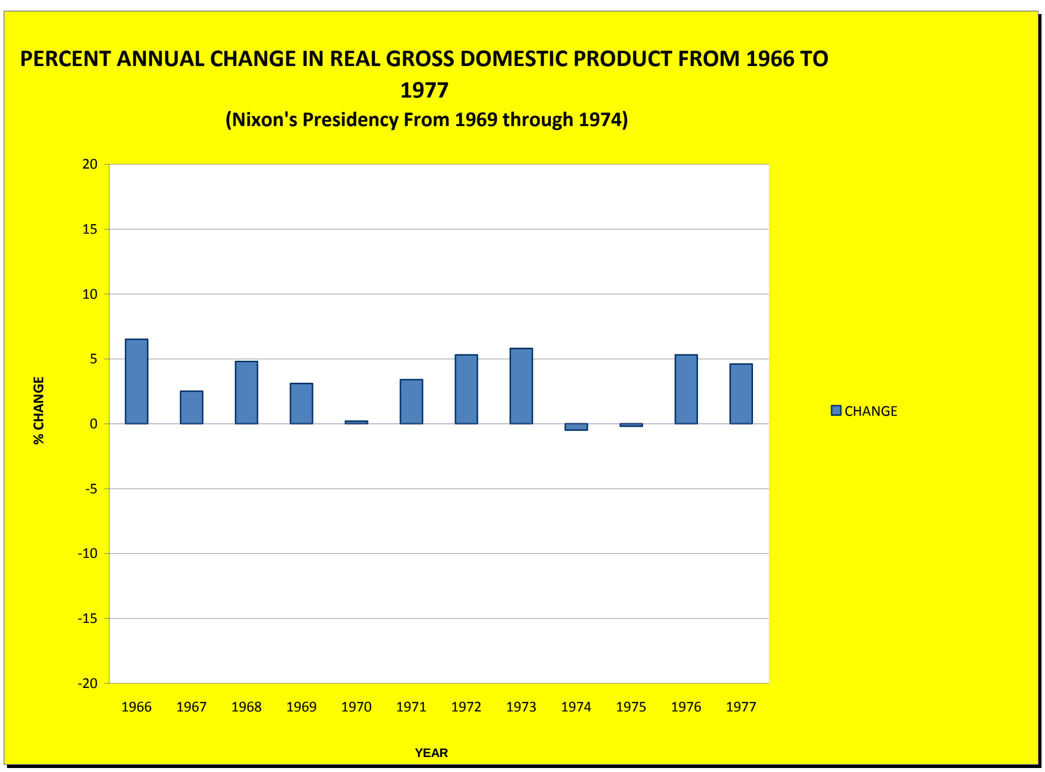
THE PRESS: Thank you.

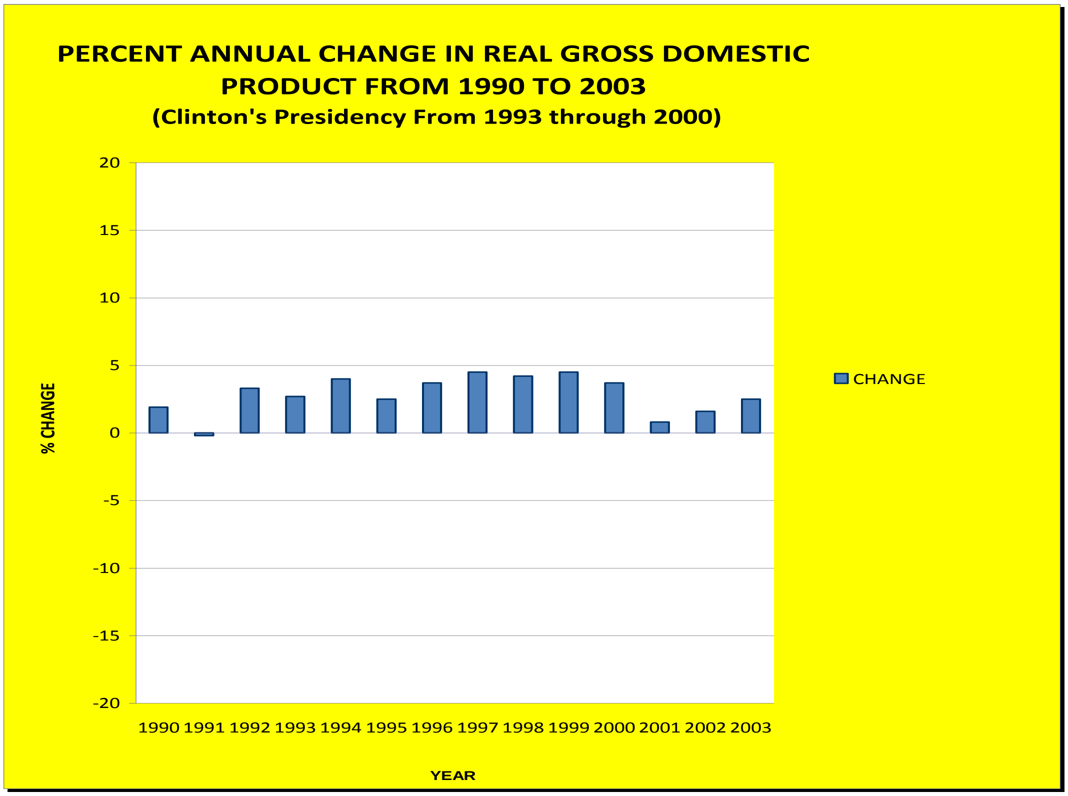
END3:50 P.M. EST

Citation: John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA. Available from World Wide Web: http://www.presidency.ucsb.edu/ws/?pid=59466. *Last Accessed*: June 25, 2010

Appendix D: Changes in Gross Domestic Product (GDP) around Case Studies Presidents






PERCENT ANNUAL CHANGE IN REAL GROSS DOMESTIC PRODUCT FROM 1990 TO 2003
(Clinton's Presidency From 1993 through 2000)
20
15
10
5
0
-5
-10
-15
-20
% CHANGE
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003
YEAR
CHANGE

Appendix E: US Business Cycle Expansions and Contractions [1]

Contractions (recessions) start at the peak of a business cycle and end at the trough.

BUSINESS CYCLE REFERENCE DATES				**DURATION IN MONTHS**			
Peak		**Trough**		**Contraction**	**Expansion**	**Cycle**	
Quarterly dates are in parentheses				*Peak to Trough*	*Previous trough to this peak*	*Trough to Trough*	*Peak to Peak*
		December 1854	(IV)	--	--	--	--
June	1857(II)	December 1858	(IV)	18	30	48	--
October	1860(III)	June 1861	(III)	8	22	30	40
April	1865(I)	December 1867	(I)	32	46	78	54
June	1869(II)	December 1870	(IV)	18	18	36	50
October	1873(III)	March 1879	(I)	65	34	99	52
March	1882(I)	May 1885	(II)	38	36	74	101
March	1887(II)	April 1888	(I)	13	22	35	60
July	1890(III)	May 1891	(II)	10	27	37	40
January	1893(I)	June 1894	(II)	17	20	37	30
December	1895(IV)	June 1897	(II)	18	18	36	35
June	1899(III)	December 1900	(IV)	18	24	42	42
September	1902(IV)	August 1904	(III)	23	21	44	39
May	1907(II)	June 1908	(II)	13	33	46	56
January	1910(I)	January 1912	(IV)	24	19	43	32
January	1913(I)	December 1914	(IV)	23	12	35	36
August	1918(III)	March 1919	(I)	7	44	51	67
January	1920(I)	July 1921	(III)	18	10	28	17
May	1923(II)	July 1924	(III)	14	22	36	40
October	1926(III)	November 1927	(IV)	13	27	40	41
August	1929(III)	March 1933	(I)	43	21	64	34
May	1937(II)	June 1938	(II)	13	50	63	93
February	1945(I)	October 1945	(IV)	8	80	88	93
November	1948(IV)	October 1949	(IV)	11	37	48	45
July	1953(II)	May 1954	(II)	10	45	55	56
August	1957(III)	April 1958	(II)	8	39	47	49

April 1960(II)	February 1961 (I)	10	24	34	32
December 1969(IV)	November 1970 (IV)	11	106	117	116
November 1973(IV)	March 1975 (I)	16	36	52	47
January 1980(I)	July 1980 (III)	6	58	64	74
July 1981(III)	November 1982 (IV)	16	12	28	18
July 1990(III)	March 1991(I)	8	92	100	108
March 2001(I)	November 2001 (IV)	8	120	128	128
December 2007 (IV)			73		81
Average, all cycles:					
1854-2001 (32 cycles)		17	38	55	56*
1854-1919 (16 cycles)		22	27	48	49**
1919-1945 (6 cycles)		18	35	53	53
1945-2001 (10 cycles)		10	57	67	67

* 31 cycles
** 15 cycles

Source: NBER