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From February through July of 1976, U.S. Treasury Secretary William Simon took regular breaks from his government responsibilities to meet with the journalist Edith Efron. Simon was working on a memoir, and Efron, a former reporter and magazine editor had signed on to be his ghostwriter. Their conversations included earnest discussions of the book, its structure, and its underlying argument, which Simon intended to be a full-throated defense of open markets and free enterprise on top of an account of his own experiences. "Basically what we're talking about is the difference between freedom and socialism," Simon explained. "Do we want a government-run society, whatever form, limited or otherwise, or do we wish to have the traditional society?" He suggested explaining this difference by recounting the recent history of New York City, which had unsuccessfully sought a bailout from Simon's Treasury Department and the administration of President Gerald Ford during its 1975 fiscal crisis. New York, Simon explained, was "the classic example of self-interest in the unholy coalition of unions, politicians, and bankers preaching fear" at the public's expense. And he intended to counter a "don't rock the boat philosophy" within the American business community that led too many executives to focus on upcoming stockholder meetings at the expense of the broader intellectual and political climate.1

The meetings also contained their share of inside gossip and palace intrigue. Simon complained to Efron about the declining quality of cabinet-level appointments since he began

¹ "Interview with Secretary Simon," February 21, 1976, William E. Simon Papers, David Bishop Skillman Library, Lafayette College (hereafter Simon Papers), drawer 43, folder 36.

working at Treasury. "Two years ago," Simon explained, "we had Al Haig, [George] Schultz, Mel Laird, Bryce Harlow—versus today?" He admitted that he no longer felt "inferior" to his colleagues in the administration, and policy discussions had grown dull as a result: "You know when you begin to feel superior, boredom sets in." (At one point, Simon called the awkward, off-color jokes told by Agriculture Secretary Earl Butz were now the "best part" of cabinet meetings.) Worse, the declining quality of cabinet-level officials had allowed a contingent of presidential aides—especially Chief of Staff Donald Rumsfeld, his assistant Dick Cheney, and Press Secretary Ron Nessen—to dominate policymaking. Simon, a holdover from the Nixon administration and a stubborn advocate for his policies, saw his influence wane along with the rest of the cabinet.²

Simon had a personal rivalry with a few of those close presidential aides. Simon believed that Rumsfeld coveted his job at Treasury and hoped to push him out the door. There "was a Rumsfeld-Cheney-Nessen cabal putting all these things out to the newspapers about me, designed to kill me as a person," Simon confided in Efron. But it was also, in part, a conflict over principle. Simon relished his job as a free-market "truth-teller" in a Republican Party too ready to compromise. His opponents painted him as divisive. "Rumsfeld," Simon explained, "brought [senior foreign-policy expert] McGeorge Bundy down here to the White House to complain about 'people' in northeast are upset with my economics." The goal was to marginalize the Treasury Secretary within the administration. Rumsfeld, Cheney, and Nessen were an "incredible group of idiots for people who are supposed to be pretty smart," Simon told Efron. "But by God," he added, "they had guts!" 3

² Ibid. Butz was forced to resign his position six months later after one of his jokes—a racist comment about African-Americans—was reported in the press.

³ Ibid. "Interview with Secretary Simon, March 22, 1976, Simon Papers, drawer 43, folder 37.

Disillusioned though he was with Ford, Simon was also uncomfortable with man challenging the president in the 1976 Republican primaries, actor and former California Gov. Ronald Reagan. "It can make you sick offering Ronald Reagan—how blatant can you get?" he asked Efron. Simon distrusted the California lawyers and businessmen that made up Reagan's inner-circle; they reminded him of the Golden State political hands that Nixon had brought to Washington. There were also regional and cultural differences between the two men. Simon had made his career in the investment banks of New York City and belonged to a different part of the business community than the pharmacy chain-store owners, brewery executives, and construction magnates that made up Reagan's "kitchen cabinet" of economic advisors. It would take some time for Simon, and other skeptics, to warm up to the Gipper. Though, like most other people who considered themselves conservative and Republican, he eventually would.⁴

This presentation is drawn from the first chapter of my new book project, tentatively titled *Bull: The Stock Market and the Politics of Financial Security, 1975-2000.* The book is, primarily, the story of the 1982 to 2000 bull market in equities and what it did to American politics—that is, how it changed conceptions of ownership and enterprise, how we provide for our personal and collective financial security, and the way that public policy gets made. I will do this through broad social history, for example by examining participation rates in 401(k) and equivalent tax-advantaged savings vehicles; and through policy history, for example by examining the evolving structure of tax law, legislation, and regulation. At the same time, I will periodically telescope in from the broad data to the individual public careers of a small group of men who moved between the worlds of high finance and national government during this period. In the 1970s, one major subject of my telescopic lens will be William Simon, a former Salomon

 $^{^{\}rm 4}$ James M. Collins to William E. Simon, July 28, 1980, Simon Papers, box 1, folder 8.

Brothers bond trader who ran the Treasury Department from 1973 through 1976, under Presidents Nixon and Ford.

The 1970s were a period of considerable economic and political uncertainty in the United States. The economy was plagued by unusually high levels of inflation, at times paired with high unemployment to form the combination misery known as "stagflation." The investigation of and eventual resignation by President Richard Nixon over the Watergate break-in extended a crisis of public authority in the United States that had emerged during the Vietnam War. The rise of new social movements, from feminism and gay liberation to environmentalism and consumer protection, created new sites for "culture wars" in the public sphere and within families. Over the course of the decade, American popular culture would reflect the emerging pessimism of the American people about the future. From cookie-cutter "disaster movies" to the more subtle achievements of the era's "auteur directors," movies projected a dark world of social decay and failures of collective action. Stories of political conspiracies and assassinations, societies teetering on the edge of chaos, burning buildings and sinking ships—all this constituted a narrative representation of the era's public mood. And it was a mood that Simon sometimes shared while making policy for Nixon and Ford.⁵

William Edward Simon was born in 1927 in Paterson, New Jersey, the son of an insurance broker who "lost his wealth during the Depression" and was haunted by the "shadow of defeat" despite providing adequately for his family. After a stint in the army, Simon attended Lafayette College, a private liberal arts college on the Pennsylvania side of the Delaware River. While there, his primary interests consisted of surfing and swimming, not classroom work, and he graduated without any particular academic distinction. In 1952, Simon began a job as a

⁵ See Sean Wilentz, *The Age of Reagan: A History 1974-2008* (Harper, 2008). Beth Bailey and David Farber, eds., *The Seventies* (University Press of Kansas, 2004).

management trainee at Union Securities. Five years later, he joined the firm of Weeden and Company, and in 1964 he moved on to Salomon Brothers, where he ended up on the executive committee of the partners. "By the early 1970s," Simon would explain, "my share of the firm's profits was exceeding anything I had ever dreamed of as a young man." And the accumulation of this personal fortune allowed Simon to put his banking career to the side when he had an opportunity to serve in government.⁶

Simon's expertise at Salomon was U.S. treasury bonds, which from his feet while drinking prodigious quantities of ice water. He considered trading securities to be the combination of instinctive behavior and an acquired art; he disdained people who over-thought the process. He once claimed that he refused to hire business-school graduates because they would be too deliberate about the process. As he explained to an interviewer: "I used to tell my traders, 'If you guys weren't trading bonds, you'd be driving a truck. Don't get intellectual in the marketplace." For that reason, Simon was a perfect fit for the aggressively macho Salomon Brothers trading culture that Michael Lewis would one-day make famous through his memoir *Liar's Poker*. It also provided the basic building-blocks for his view about the world. Wall Street proved to Simon that hard work, steel nerves, and marketplace savvy were the keys to personal success in the world. He also showed him an example of open markets in a pretty ideal form: liquid securities being traded among knowledgeable brokers and their investors, each in the service of the same goal: maximizing profit for themselves and their institution.

Compared to the deal-making that went on around Wall Street, however, the government agencies who issued that debt that Simon traded were a mess of conflicting incentives and inefficiencies. Or so Simon concluded, in part from personal experience. In 1970, the

⁶ William E. Simon, *A Time for Truth* (Reader's Digest Press, 1978), 4-5. William E. Simon with John M. Caher, *A Time for Reflection*: An Autobiogrpahy (Regnery, 2004).

⁷ Ouoted in Michael Lewis, *Liar's Poker*.

Government National Mortgage Association (better known as Ginnie Mae) approached Simon for help turning the home mortgages it guaranteed into securities that could then be sold to investors. Simon was intrigued by the idea but stumped by the problem of pre-payment risk. Almost all U.S. mortgages include an option allowing the borrower to pay down their principal early for whatever reason—even to refinance at a lower interest rate. Simon did not believe that bond investors would purchase a security whose principal might the returned to the investor at the worst possible time to reinvest. So, he asked Ginnie Mae to introduce new rules and penalties on repaying the loans. When the agency failed to heed his advice, Simon was stung, and he responded by consigning Salomon's mortgage-bond business to an analyst with no experience making markets. The market for the Ginnie Mae securities languished as a result.⁸

Simon's dealing with Fannie Mae suggested one of the fundamental problems with government in general. The state wielded extensive power to intentionally or de facto plan the economy. But it faced none of the immediate trade-offs, quantifiable outcomes, and incentive structures that seemed to prevail among Salomon traders. No private-sector firm, he concluded, would have ignored the advice of its own customers in such a brazen way. And that posed a problem for Simon's subsequent career in the federal government. On one hand, he wanted to use his Wall Street experience and personal financial experience to give something back to the country that made him wealthy and successful. One the other hand, he had already acquired a measure of contempt for the entire enterprise of governance. Just imagine some of the possibilities for cognitive dissonance: In 1972, our free-market financial wizard becomes Deputy Treasury Secretary for an administration that had experimented with federal wage and price controls. He gets promoted to the job of unofficial "gasoline czar" during the Arab oil boycott; in that role, he rations fuel among sectors of the economy and takes the blame for shortages at

⁸ Lewis, *Liar's Poker*, 104-09.

service stations. He is kept on as Treasury Secretary by the Ford administration, which combats high rates of inflation with "Whip Inflation Now"—or "WIN"—buttons. And all this time, he is working for the Republicans—the "pro-business" party in the American two-party system.

In the actual chapter, I will have a longer discussion of Simon's actual experience as Treasury Secretary and the challenges he faced. In addition to the long-simmering inflation issue and the oil crisis—two major problems to be sure—I will discuss the 1975 fiscal crisis in New York City and the debate within the Ford administration over whether to bail the city out. Simon was a strong advocate for saying "no" to New York. For the moment, I want to focus more on ideas and about mood. And on that it might suffice to say that Simon emerged from public service feeling absolutely fatalistic about the future of business and government in America. "If and when financial collapse occurs, it will only occur because of what the Government has done through economic policies and taxation: the weakening and final destruction of the private sector," he explained to Edith Efron in one of their 1976 conservations. "That is the danger: that out of the ashes this time will not re-emerge a new free enterprise spirit but the total socialization of the United States economy and the total loss of the freedoms of this county."

Two years after leaving Treasury, Simon published *A Time for Truth*, the result of his collaboration with Efron. The book began, optimistically enough, by describing the joy of driving into Washington, D.C., on a warm April morning: "The air is fragrant, the cherry trees are massed along the Potomac, and the great white temples that house the statues of Lincoln and of Jefferson glow serenely in the sun." Then things turn dark and caustic. Simon explains that his own springtime journeys into Capital had to be made while he was "locked in a limousine scanning a mass of statistics" on the way to testify before Congress, his work at Treasury leaving

⁹ "Interview of William E. Simon," no date, Simon Papers, drawer 43, folder 44.

"no room in my consciousness for such pleasures" as spring air or flowers. By the end of page two, Simon had referred to members of Congress "those coconuts on the Hill" and called the oversight hearings before which he testified a "colossal waste of time." On page three, he called the economic policies of Richard Nixon—the man who appointed him Treasury Secretary— "insane." The book did not get any rosier Simon delved deeper into his argument. By page twelve, Simon was predicts a near-future of large-scale economic disruption and social turmoil, resulting in "riots, starvation, and death."

Those particular turns of phrase were in part the work of Simon's ghostwriter. By the late-1970s, Edith Efron was an experienced writer. She began her writing career in the late-1940s as a foreign correspondent for Henry Luce's magazines *Time* and *Life* and came to embrace a staunch, free-market perspective on economics, at a time when it was especially unfashionable to be a New York Jew and a woman of the right. In the 1960s, she was invited into the inner-circle of the philosopher and novelist Ayn Rand, a select group that also included the psychologist Nathaniel Branden, the philosopher Leonard Peikoff, and the economist Alan Greenspan. Unfortunately, Efron's caustic wit and ironic sensibility caused her to fall out with some of Rand's more earnest devotees, and Efron was treated to a group criticism session and expulsion from the salon. (For a woman who devoted her life to opposing communism, Rand could be oddly Stalinist in refusal to allow philosophical deviation and her enthusiasm for show trials. ¹¹)

Efron went on to serve as a top editor at *T.V. Guide*, a magazine published by the prominent Republican and Nixon supporter Walter Annenberg, and to write a book about the 1968 presidential election that purported to find massive bias in the national news media in the

¹⁰ Simon, A Time for Truth, 1-4, 12.

¹¹ Jennifer Burns, *Goddess of the Market: Ayn Rand and the American Right* (Oxford University Press, 2009).

favor of Hubert Humphrey.¹² Richard Nixon loved it, and this led access of a different sort. But Efron retained some of Rand's romantic sensibility and the idea that a mixed economy contained the seeds of its inevitable destruction even after her expulsion from her group. And that sensibility structures *A Time for Truth* much as it structured *Atlas Shrugged*. New York is the "microcosm" of a great city brought low by welfare cheats and profligate public officials. The United States is the "macrocosm," New York City on a national scale.¹³ Preventing a complete meltdown required more than austerity, it required some sort of full-scale reckoning. As Simon told Efron, "The American people have to realize what they already know deep in their hearts that we just cannot continue to live the way we have. That doesn't mean that we can't continue to grow. I'm not a no-growth man, but...." And there he broke off, not finishing the thought.¹⁴

There was an irony in all this. In the 1970s, Americans relationship between their own personal finances, their government, and the "market" was beginning to undergo subtle—but eventually quite consequential changes. These came from a combination of policy changes and entrepreneurial ventures that once opened access to financial markets to more Americans and tried to secure what money that was already there. To list just a few examples: In 1974, Congress passed (and President Ford signed) the Employment Retirement Income Security Act (ERISA), a massive and complicated law intended to protect American workers from employers who underfunded or mismanaged their pension obligations. In 1975, the New York Stock Exchange banned fixed commissions and allowed "discount brokerages" to compete for market share. In 1976, Vanguard launched its first low-cost mutual fund tracking the S&P 500. In 1978, a handful of firms began experimenting with a new sort of pension system, made possible by reforms in tax and pension law and defined in Section 401 of the Internal Revenue Service code.

¹² Rick Perlstein, Nixonland: The Rise of a President and the Fracturing of America (Scribner, 2008).

¹³ Simon A Time for Truth

¹⁴ "Interview with Secretary Simon," June 4 1976, Simon Papers, drawer 43, folder 40.

Over time, these innovations—unruly creations of the public and private sector,

Democrats and Republicans, consumer advocates and insurance companies—would simultaneously expand public access to U.S. financial markets and expand the legal safety net for those who participated. They also helped make the bull market of the 1980s and 1990s a public event with the power to shape the consciousness of many more people. During the end-of-the-millennium equities boom, millions of Americans would go through the education that William Simon had experienced in the 1950s and 1960s. They discovered through their portfolios the virtues of saving and investing; the thrill of building wealth without working any harder; the risks and rewards of "owning" small fractions of massive, publically traded companies. And once they had this education during a historic bull, Simon's complaints about the relative competence of the public sector—the ones that got him branded "William the Terrible" on Capitol Hill—began to make more sense.

Whether that education was a particularly good thing—whether the public learned the *right* lessons—is, of course, an open question: Some evidence suggests that Americans are poor portfolio managers, that increased "absentee ownership" complicates corporate governance and puts publically traded firms at the mercy of asset bubbles and high-frequency trading, that people consistently underrate the value of government programs in their own lives. But I'd rather leave those normative issues aside for now. My point is: the 1980s turned out very differently than the more apocalyptic prognosticators of the 1970s expected. And some of the policy and private sector innovations of the 1970s made the 1980s much more meaningful than they would have otherwise been.