

Case Studies



Herbert Stein

Economists often described Herbert Stein as a “conservative’s liberal” and a “liberal’s conservative.” Stein was born in Detroit, Michigan, in 1916. His father had immigrated from the Russian-held part of Poland and worked as a machinist at Detroit’s Ford Motor Company. Shortly before the stock market crash in 1929, the family moved to New York. Just before turning 16 years old, Stein enrolled in Williams College, where he majored in economics. The hardships of the Great Depression played a part in his decision to become an economist. The “critical economic condition of the country, especially mass unemployment,” sparked his interest.

Budget Policies

Late in his life, Stein said “budget policy has been my vocation and my hobby for fifty years.” Over that time his thinking on budgetary issues changed greatly. Like many economists, he abandoned the belief that budgets had to be balanced each year. Stein viewed managing taxes and spending as the key to achieving a prosperous and expanding economy, even if this sometimes meant having budget deficits.

In 1938 he went to the nation’s capital to work as a junior economist with the Federal Deposit Insurance Corporation. Shortly after the attack on Pearl Harbor and U.S. entry into World War II, he became head of the economic analysis section of the War Production Board. After the war, he joined the Committee for Economic Development, a private group organized to study economic issues, where he worked until 1967.

Presidential Adviser

In the summer of 1968, Stein’s interest in budget problems attracted the attention of Republican presidential hopeful Richard Nixon, who asked Stein to make a study of federal budget problems. When Nixon became President in 1969, he appointed Stein to the three-member Council of Economic Advisers. Stein served on the council throughout the Nixon administrations, including two years as the council chairman.

During the early 1970s the nation experienced serious problems with unemployment and inflation. Stein helped Nixon formulate economic policies to address these problems. Following Stein’s advice, the Nixon Administration stimulated the economy through deficit spending and, for a time, instituted wage and price controls to slow inflation.



Herbert Stein was appointed by Richard Nixon to the three-member Council of Economic Advisers, on which he served throughout the Nixon administrations.

As a presidential economic adviser, Stein followed a conservative but flexible approach to problems such as unemployment and inflation. In his later years Nixon recalled Stein as an adviser whose economic forecasts had been “uncannily right.” Nixon added, “But what impressed me more is that, right or wrong, he always bit the bullet and took a stand.”

Stein taught economics at the University of Virginia after stepping down as a presidential adviser. He remained in the public eye until 1999 when he died at age 83. He wrote on economic issues for such publications as *The Wall Street Journal* and *The Washington Post* for three decades.

Although the study of economics is often considered somewhat dry and serious, Stein displayed his engaging sense of humor while writing about it. He jokingly offered what he called Stein’s law and corollary. His law stated “Economists do not know very much.” The corollary noted “Other people, including politicians who make economic policy, know even less about economics than economists do.”

U.S. Budget Surpluses and Deficits, 1967–1974

Year	1967	1968	1969	1970	1971	1972	1973	1974
Surplus or Deficit (in millions)	-\$8,643	-\$25,161	\$3,242	-\$2,842	-\$23,033	-\$23,373	-\$14,908	-\$6,135

Source: *The World Almanac and Book of Facts* 1999, p. 109.

This table shows budget deficits and surpluses for the federal budget for the years 1967–1974. A budget deficit is indicated by a minus (-) sign.

Thinking About the Case Study

1. In what year did the nation have a budget surplus? Between which two years did the budget deficit almost triple?

2. **Analyzing Information** In what year was the budget deficit reduced to just over 40 percent of the previous year?

3. **Drawing Conclusions** What event in Herbert Stein’s early life sparked his interest in economics?

4. **Drawing Inferences** What was Stein’s role as a presidential adviser? How might Stein’s job be different if he were a presidential adviser today?

Free Enterprise Activity

Economists offer advice on many different topics, from the effects of trade agreements or taxes on employment, to strategies for controlling inflation, to the impact of raising interest rates on homebuyers. Look for articles or editorials in newspapers or news magazines in which the opinions of economists are quoted. Select an article and write a brief report that summarizes its topic and the analysis and advice given by the economist. Indicate what use was made of the economist’s advice if that information is available.