Walter W. Heller
1915–1987

Walter Heller was an outstanding economist, an innovator in economic and social policies, an inspiring leader, and a marvelous human being. He will be remembered also for his ability to explain economics to politicians, businessmen, and the general public alike, and to persuade presidents and Congress to accept economic doctrines they grew up to regard as sinful. He was a member of the Brookings Panel on Economic Activity from its inception until his death, and it is fitting for us to pause to pay our respects to our distinguished colleague and good friend.

Walter grew up in Seattle and Milwaukee, and received his bachelor's degree from Oberlin College. He did his graduate work at the University of Wisconsin, where his mentor was Harold M. Groves, who spawned a generation of public finance scholars and activists. He spent his entire career as professor of economics at the University of Minnesota, with occasional time-outs for public service. He served as president of the American Economic Association in 1974.

Walter made important contributions to the study of fiscal policy and taxation, but he became famous as the articulate and effective chairman of the Council of Economic Advisers under Presidents John F. Kennedy and Lyndon B. Johnson from 1961 to 1964. After leaving that post, Walter served as an adviser to presidents, Congress, and business. He wrote widely and spent a good deal of time on the lecture circuit. His ability to turn a phrase and to weave into his speeches humorous clips from newspapers and magazines made him one of the most sought-after lecturers on economics.

During World War II, Walter was a member of the staff of the Division of Tax Research of the Treasury Department, where he helped develop tax policy to finance the war. In 1947–48, he was adviser to the U.S. Military Government in Germany on the currency and fiscal reforms that launched the postwar German economic revival. He also served as a consultant to the Treasury Department during the Korean War and played an important role in the development of the pay-as-you-go tax policy ultimately adopted to finance that war.

As chairman of the Council of Economic Advisers, he assembled the best team of economists ever to serve the council. He chose as his colleagues on the council James Tobin and Kermit Gordon and later Gardner Ackley and persuaded such stars as Kenneth Arrow, Arthur Okun, George Perry, and Robert Solow to join the staff. This team, with Walter as its quarterback, vigorously advocated the neoclassical Keynesian synthesis of fiscal and monetary policies to achieve full employment and increase economic growth. They persuaded President Kennedy to propose a major tax cut to stimulate demand. They advocated the enactment of an investment tax credit and the liberalization of depreciation allowances to stimulate investment incentives. And they developed the first—and, I believe, successful—voluntary wage-price guideposts to help contain inflationary pressures as the economy moved to full employment.

As a result of the policies pursued by the Kennedy and Johnson administrations, the nation enjoyed a long period of economic growth and prosperity without inflation. From the fourth quarter of 1960 to the fourth quarter of 1964, when Walter left his CEA post, U.S. real GNP grew at an average annual rate of 4.9 percent, consumer prices rose 1.2 percent a year, and long-term federal bond yields never exceeded 4.2 percent. I will leave it to the economic historians to decide whether these were the best years in our postwar history, but they were certainly close.

Walter began as a specialist in state and local taxation and maintained this interest throughout his career. He wrote his doctoral dissertation on the administration of state income taxes, and later originated the idea of federal revenue sharing with state and local governments. He persuaded President Johnson to appoint me to head the Task Force on Intergovernmental Relations, which developed the details of the revenue sharing plan. Johnson rejected revenue sharing—some say because Walter leaked the report to the press (which is true), but I believe the real reason was that revenue sharing was inconsistent with Johnson's style and philosophy of government. To our pleasant surprise, President Nixon later embraced the idea of revenue sharing, and it was enacted by Congress on his recommendation in 1972. The program, which ultimately paid out almost $75 billion to the states and local governments, lasted until the end of fiscal year 1986, when it became a casualty of the Reagan deficits.

Walter was a strong advocate of progressive taxation and was one of the first to recognize that unnecessary tax preferences and deductions narrow the income tax base, require higher marginal tax rates to raise the necessary revenues, and distort economic decisions. He deserves a great deal of credit, along with Stanley Surrey, Richard Musgrave, and other lawyers and economists, for keeping the tax reform movement alive even in the darkest days when Congress was approving new loopholes in every tax bill. I am happy to observe that Walter lived to see the day when at least a modest version of comprehensive tax reform was enacted into law.

Walter was keenly aware that the incomes in a market system are unequally distributed and that many people in our society do not share in the benefits of economic growth. He combined his advocacy of sound macroeconomic policies with strong support for the use of the government's powers to improve the lot of the disadvantaged and underprivileged. He helped persuade President Johnson to design and implement an antipoverty program to provide economic opportunities for low-skilled workers and a decent income for those who cannot earn their own livelihood. "We cannot relax our efforts to increase the technical efficiency of economic policy," he wrote in 1966. "But it is also clear that its promise will not be fulfilled unless we couple with improved techniques of economic management a determination to convert good economics and a great prosperity into a good life and a great society." This is the essence of Walter Heller, and we pay tribute to him for his tireless and compassionate use of economics to achieve this goal.

As this review of his interests and accomplishments indicates, Walter Heller was one of the most important and effective economists of the post–World War II period. Yet he was not the greatest theorist, or the best teacher, or the most imaginative public official who ever held office. One is tempted to ask: what made him so effective? I think that the answer to that question is that he was so much greater than the sum of his separate skills. He joined high competence in all the dimensions of leadership with compassion, good judgment, and hard work, to leave a more indelible mark on the place of economics in American life than any other economist of his generation.

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