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James McIntyre

Slaying the Dragon of Debt: Fiscal Politics and Policy from the 1970s to the Present

A project of the Walter Shorenstein Program in Politics, Policy and Values

Interviews conducted by
Patrick Sharma with Martin Meeker
in 2010

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01-00:00:03

Sharma: This is Patrick Sharma, Wednesday, August 25th with James McIntyre, Director of the Office of Management and Budget during the Carter Administration. Mr. McIntyre, I wanted to start a little bit by talking about how you came to serve in the Carter Administration and your background.

01-00:00:26

McIntyre: Well, I had worked for President Carter when he was governor in Georgia. Actually, I worked for three different governors in Georgia. I was the deputy revenue commissioner when President Carter was elected governor and he kept me on in that position. I served not only as the deputy revenue commissioner, but I also became the legal counsel for his project to reorganize Georgia's government.

About two years into the Administration there was a vacancy in the Office of Planning and Budget in Georgia and he appointed me to head up that office. And that office basically was involved in budget development and overseeing the execution of the budget. We had intergovernmental relations. We had a management staff that looked into ways to improve management of the government. Then we had a planning division that did sort of planning for state government, looking at federal programs and state programs and looking towards the future and how Georgia would be affected in the short term, as well as the long term, by some of the trends that we were seeing.

Then when Governor Carter got elected President, he called and asked me if I'd come up and serve him either in the White House or at OMB. I first came up as the deputy director for OMB. Bert Lance was the director and then Mr. Lance resigned in September and President Carter appointed me as the director, acting director, and later I was confirmed as the director of OMB and served for three and a quarter years in that position.

01-00:02:18

Sharma: I was wondering if you could talk a little bit about your experience with the White House reorganization. You spoke a little bit about that in your Miller Center interview.

01-00:02:27

McIntyre: The White House reorganization was one of the new responsibilities that President Carter assigned to OMB. I was in charge of it and on a day to day basis it was headed up by Harrison Wellford on my staff. And we were charged with trying to come up with recommendations for restructuring the federal government and trying to eliminate some of the duplication in some of the agencies in the government. That's when I ran into one of the truisms in Washington, and that's Congressional committee jurisdiction. It made it very difficult. Committee jurisdiction makes it very difficult to really restructure

the federal government, because if you consolidate agencies, you could very well be eliminating jurisdiction of a Congressional committee over certain activity that those members have had a vested interest in for years. And that was one of the challenges we had in our reorganization.

President Carter was very dedicated to trying to reorganize the federal government, make it more efficient, and we did have a number of successes, although some of our successes did include creating some new departments, like the Department of Energy. But that operation was one of the responsibilities of the Office of Management and Budget. And one of the reasons President Carter put it there was because OMB is the only agency in the government that really has a view of what's happening throughout the government. They're also familiar with all of the individual agencies and their activities and so we could call on the budget staff at OMB to help us identify areas where there could be some overlap or where we could make some changes that would be more economical and more efficient in the government.

01-00:04:45

Sharma:

And the goal was to make government more effective?

01-00:04:47

McIntyre:

Absolutely. To make it more efficient and effective. Because you do have a lot of agencies that have overlapping jurisdictions what we were trying to do was to put the responsibility for certain programs in organizations where they could be held accountable for their activities and, in that sense, to make it more effective.

01-00:05:17

Sharma:

And was this similar to the work you had done in the state of Georgia itself?

01-00:05:21

McIntyre:

Yes. It was similar to the work we had done in the state of Georgia and we used a similar process in Georgia in terms of getting the reorganization staffed and getting recommendations to the President and having him sign off on the reorganization proposals and then getting them adopted. But it was similar. But let me say that it was much more complicated.

01-00:05:50

Sharma:

At the federal level?

01-00:05:51

McIntyre:

At the federal level. And one of the issues was Congressional committee jurisdiction. Another issue we had to wrestle with was the influence of outside groups. The outside organizations had developed relationships with the agencies and the programs had intimate knowledge of the programs and the program operators as they currently existed and they were very concerned about transferring those programs into another agency or eliminating an organization with which they had developed their relationships over the years and had a lot of influence, frankly. And while you had that, to some extent, at

the state level, it was so much more amplified at the federal level. You really had to work with these various interest groups to try to identify what their concerns were and try to address those concerns in the reorganization proposals.

01-00:06:58

Sharma:

And was there frustration within the White House at the difficulties in undertaking the reorganization and surprise at the level of difficulty?

01-00:07:05

McIntyre:

I think there was some concern that it was more difficult to get some of these reorganizations through the Congress than we had at first thought there might be. Yes.

01-00:07:30

Sharma:

And how did that impact your opinion of the President's ambitions and sort of his agenda going forward?

01-00:07:39

McIntyre:

Well, I think the concern in the White House didn't so much impact the President's ambitions as the fact that we had to be very realistic in what we were proposing. I think that was the thing that really caused us to focus more on some of the proposals. Was the realism that certain things were going to be very difficult to get through because of the power of the Congressional committee chairmen who had a vested interest in some of these proposals.

01-00:08:14

Sharma:

I see. Did the reorganization touch on OMB itself? Was OMB reorganized?

01-00:08:18

McIntyre:

Well, there was a reorganization of the Executive Office of the President. I don't remember all the details of that reorganization, but that was part of the reorganization effort, was to look at the Executive Office of the President, of which OMB is a part.

01-00:08:34

Sharma:

To bring the staff level down a little bit?

01-00:08:36

McIntyre:

Well, at this point it's been a long time. It's been thirty years. Actually, more than thirty years. I don't remember all the details of it, but I do remember we did have a reorganization of the Executive Office of the President and OMB is a part of the Executive Office of the President. Exactly how OMB was affected by that restructuring, I don't remember. But I'm sure we can find that out by looking at the proposals.

01-00:09:04

Sharma:

I'd like to talk a little bit about your time at OMB and how you found it as an institution itself. You came to it in the wake of the Lance resignation and

scandal. Did you find that staff were negatively affected by that or that the Lance scandal had an impact on the role of OMB within the White House?

01-00:09:28

McIntyre:

Well, I don't think that the professional staff was affected. They are professionals. They're really very bright, dedicated people and they continued to do their job throughout any controversies that occurred. I would say that the most serious effect, in my opinion, that Bert Lance's resignation had was that he was the one person who could go to the President and say, "Mr. President, you shouldn't do this." Or, "Mr. President, here's what you ought to do." He was more of a counselor to the President. In fact, I think that was his greatest service to the President, was as a counselor to the President. And in that sense, I think that's where Bert's resignation probably had the greatest impact, was that the President lost someone truly that he knew, trusted and respected who could walk in there and tell him what he thought he was doing right and what he thought he was doing wrong and the President would listen to him.

01-00:10:47

Sharma:

And how did you find your access to the President?

01-00:10:51

McIntyre:

Well, I had total access to the President because I had known the President when he was governor. I had worked very closely with him. When we were doing the reorganization of Georgia state government, I met with Governor Carter every day and spent most of my weekends for a year out at the governor's mansion going through proposals, drafting legislation. So I knew him very well. I had access to him. The difference between me and Bert was that Bert was more the President's age and Bert also had been active in state government and advising the President, as well. While I had total access to the President, I was looked at as more of an expert in OMB's role, whereas Bert could have had a broader portfolio than that.

01-00:11:51

Sharma:

In your Miller Center interview, which was thirty years ago already, you described a great unsettlement, in your words, in OMB when you took over and then you also described an effort to de-emphasize the size and role of OMB initially when you took over. Could you go into detail about this? It's something that wasn't followed up on in your Miller interview.

01-00:12:18

McIntyre:

Well, I'm not sure what that's referring to. When I took over, I was actually doing the day-to-day running of OMB when Bert was the director because, as I said, he had a little broader portfolio than just OMB director. I was actually doing the day-to-day running of OMB at the time, and I think the real difficulty was to try to handle two major roles. That is, preparing and overseeing the execution of the budget on the one hand and managing the reorganization on the other hand. It took a lot of time and attention.

With respect to unsettlement, I'm not sure what that's referring to. We did add an executive associate director for budget and an executive associate director for management because we were conducting those two major efforts--preparing and overseeing the budget and doing the reorganization. So we did put someone in charge of each of those efforts, with me having sort of the oversight of both of them.

01-00:13:34

Sharma:

It's interesting because the M in OMB frequently gets lost. It's usually seen as simply a budget agency but—

01-00:13:41

McIntyre:

Well, and that's true and we were going to try and take and elevate the M somewhat. That's part of what the reorganization was attempting to do. It also resulted in the proposal that created the Office of Information and Regulatory Affairs. What I actually did was put some more management capability into OMB. I found there are different perspectives on management, from the way we looked at management in the state level and the way it was looked at in the federal level. At the state level we had a management division. We had the Office of Planning and Budget, and we actually went in and helped agencies streamline their operation. When agencies had difficulties with their programs, my management staff would go in and actually design systems and programs that would help deal with those problems. That's not the way the management works at the federal level, I found out. Management is trying to issue—at least when I took over OMB—was more of trying to have broad general directives about how agencies, would develop regulations, how agencies would manage their financial aspects of programs. It basically resulted in OMB circulars. So there's a different perspective of management that I had to adjust to, because I was actually used to hands-on getting involved in agency activities and telling agencies how to improve their programs and their systems. When I got to the federal level, I found out that's not what the "M" in OMB management really meant, that that was more of an agency responsibility and OMB was trying to establish general principles applicable across the entire government.

01-00:15:41

Sharma:

I'd like to get your opinions on how you account for that discrepancy. Is it simply a difference in mandate at the federal and state level or is it that agencies at the federal level are somewhat more deeply entrenched and have somewhat more autonomy vis-à-vis the White House?

01-00:15:57

McIntyre:

Well, I would think there are probably a couple of reasons for the difference. At the state level, at least in Georgia, the governor's a strong executive and the governor had a lot of control over his executive agencies and he could say, "I want my management people to come in there and address this problem you've got." And the heads of those agencies really didn't have much choice

but to say okay. Also, the government was much smaller and we could do that.

At the federal level, I think there are a couple of differences. One, the government was a lot larger and OMB didn't have enough staff to really get out and work in the various agencies. In fact, the staff in the management division just would have been spread too thin. They couldn't have done the job. Secondly, you had the Government Accounting Office, the GAO, that did that on behalf of the Congress and so there would be competition there and that was not something that I don't think anyone really wanted to get into. Contests with GAO about doing studies of agency management activities. And then the third reason is I don't think that Congress would have supported the Executive Office getting involved in telling some of the independent agencies, like the FTC or the Fed or any of the independent regulatory agencies, how they should be doing their business and so forth. So I think for a variety of reasons, you just couldn't do that approach at the federal level.

01-00:17:45

Sharma:

I think we're going to revisit this in a little bit but right now I'm interested in getting your thoughts about the Carter Administration's basic economic goals, or at least President Carter's main goals with regards to the economy when he came into office. How did you see that?

01-00:18:02

McIntyre:

Well, at the time he came in, we were in a recession, had high unemployment and President Carter, one of his goals was to get unemployment down, to get the economy going again. My recollection is that he took several actions to try to get a jobs bill through, and tax cuts to get the economy going. From a fiscal policy perspective, he was concerned about the debt. One of his objectives was to reduce the rate of growth of the federal budget and in that way try to control the size of the deficit.

01-00:18:50

Sharma:

Why was he concerned about the level of the debt and deficit?

01-00:18:53

McIntyre:

Well, I think for the same reason we are concerned today, and that is the impact that it's going to have on future generations of having to pay the federal debt off and also the fact that what I found is that it's very difficult for Congress to try to prioritize budget decisions. He was concerned about the fact that we don't prioritize the decisions of where we're spending federal dollars and wanted to try to address that through the budget. That's one reason that he did introduce zero based budgeting in the first year when he came into office. To try to have better defined priorities for federal spending. So we were trying to get the economy going, trying to reduce unemployment and trying also to establish a tighter fiscal policy for the government.

01-00:20:11

Sharma:

I see. Some authors have written that the Carter Administration only turned toward monetary tightening and fiscal tightening towards the end of Carter's tenure in 1979 when inflation increased rapidly again. But is that something that you think was there from the beginning?

01-00:20:31

McIntyre:

Well, first of all, we didn't have any authority over monetary policy. That's the purview of the Federal Reserve. And I do think that part of the problem was that the Federal Reserve monetary policy was fairly loose and I think that was one of the things that caused us to have problems in 1980. But I know that we did reduce the rate of growth in federal spending, which was one of our objectives. And we saw the deficit coming down except when we had the recession in 1980, which caused our deficit to balloon. That's another facet of federal budgeting that a lot of people don't understand, that the budget is highly dependent upon the performance of the economy. The so-called automatic stabilizers kick in. If we have a recession, then you have increases in unemployment, so you have increased unemployment benefits that are paid out. You have food stamp increases, the amounts that are paid out for food stamps and other types of programs, and you have decrease in revenues.

01-00:21:48

Sharma:

And a decrease.

01-00:21:51

McIntyre:

And then when the economy's good you have an increase in revenues and a decrease in some of those spending programs. So there are many things in the budget that are really subject to the economy and that policymakers have very little control over once the economy takes a certain action, either up or down.

01-00:22:13

Sharma:

Were you privy at all to President Carter's decision to appoint Paul Volcker Chairman of the Fed? Or at least from your perspective how you thought about that.

01-00:22:21

McIntyre:

Yes. I was one of the people who thought we needed someone like Paul Volcker in the job.

01-00:22:28

Sharma:

So even though the Administration didn't have direct control over monetary policy, the decision to appoint Volcker was more or less a decision to tighten the money supply? And that was understood right away.

01-00:22:42

McIntyre:

Bring someone in. An experienced person who could deal with the problems. Yes.

01-00:22:48

Sharma:

Do you remember that being a significant turning point in the Administration? At least the recognition that the fight against inflation should take priority as an economic goal?

01-00:22:59

McIntyre:

Well, it was certainly an important decision in the Administration. I'm not sure I could call it a turning point but it was certainly an important decision. The fact is that there were people who were concerned that the Volcker appointment would cause the Administration some problems because he would tighten down the monetary policy. But at that point we had to do something and we had to deal with the fact that the inflation and interest rates were very high and we needed to take action to deal with that. You have to remember, this was a Democratic administration. It came in after eight years of Republican governance. The expectations from a Democratic Congress and from the democratic interest groups were very high that President Carter was going to address all of the spending deficiencies that those groups and members of Congress had experienced for the last eight years. When President Carter just opened up the checkbook, we got a lot of pushback. The Speaker wanted to know if we were really Democrats, for example. He asked me one day, "Are you guys really Democrats?" And I told him, "We're Southern Democrats, Mr. Speaker." And you couldn't please the interest groups with our budget levels. So President Carter was a fiscal conservative, and like I say, one of his objectives was to try to decrease the rate of growth in federal spending and that's what we set out to accomplish.

01-00:24:56

Sharma:

The relations between the Carter White House and the Democratically controlled Congress, I think, are fascinating--the personality clash between Carter and Ted Kennedy, for instance. I'd like you to speak a little bit more about that. Were you and others in the Administration surprised at the level of pushback from the Democratic Congress towards your fiscal restraint?

01-00:25:16

McIntyre:

I think to some extent we were, because one of the reasons President Carter got elected was that people wanted someone in who would control the deficit, at least attempt to control the deficit. And it was very clear in the campaigns and all. His comment about federal spending and the growth of the government was something that got him elected, in my opinion. And so they should not have been surprised at what we were trying to do, but they were. At least some of the leadership was. That was a real problem because the expectations of the speaker and the leadership in the Congress was pretty high. Now, that's not true for some of the folks like the Chairman of the Appropriations Committee, which whom we had a great relationship. Both chairmen. Mr. Mahon and Mr. Whitten when I was director. And that was not true of the Budget Committee. Bob Giaino and I had a great working relationship. He was the chairman of the Budget Committee in the House and

then Senator Muskie over in the Senate and also—I can't remember his name now. The Senator from Washington.

01-00:26:41

Meeker: Jackson?

01-00:26:44

McIntyre: No. It'll come to me. I can't think of his name. But I had a great working relationship with him as chairman of the Senate Appropriations Committee. And so with those folks we worked very well. In fact, one of the things I did as director is I established the White House Budget Taskforce and it was a lobbying group. We worked with the White House staff but we also worked independently to follow the President's budget recommendations through the budget committee process and through the appropriation process.

01-00:27:23

Sharma: Was this when you hired Congressional liaison staff? Is that when—

01-00:27:26

McIntyre: Yes. Herkie Harris was the head of that group. We had about five or six other people that were in that group and they all had specific areas. Had the four budget areas: Human resources, defense, energy and the environment, and economics and government. And I had someone responsible for each of those budget divisions, to follow the budget proposals through the committees in the House and the Senate.

01-00:28:04

Sharma: And this was a significant innovation in the OMB?

01-00:28:06

McIntyre: It was a significant innovation.

01-00:28:07

Sharma: And did you have a sense that this was needed because Congress had begun to play an increased role in the making of the budget? You came into office about five years after the passage of the 1974 Congressional Budget Act that foresaw the establishment of those budget committees.

01-00:28:25

McIntyre: Yes. Well, actually, when we came into the office was the first year the budget act was mandatory. I think they had gone through a run through one time but this was the first year that it really was applicable to the budget process. And that's one of the reasons I thought it was important to develop good relationships with the chairman of the two budget committees. That also was an incentive for us to have this Congressional liaison so that we would be able to track the President's budget proposals through the Congress, particularly since we had this new budget process that had been put in place.

01-00:29:16

Sharma:

And how did you view this new process? It might have been too early to draw conclusions about it.

01-00:29:24

McIntyre:

Well, I thought it worked fairly well initially until folks several years down the road figured out ways to get around it. I thought it actually worked fairly well the first few years that it was being used by the Congress. One of the reasons, frankly, it worked well was because of our engagement with the political process. That played an important role. I met with the Chairmen of the Appropriation Committees and the Chairmen of the Budget Committees and talked about the President's budget objectives and we worked on how to achieve some of those and they told me where some of the problems were going to be. We worked together on some of these things.

01-00:30:06

Sharma:

And do you think that was a result of fiscal conservatism within Congress? So despite having these difficulties with the Democrats in Congress there was at least an emerging consensus about the need for deficit reduction.

01-00:30:22

McIntyre:

I think it's because we had a constituency for the budget for the first time. It's the first time you had really a budget committee whose job was to come up with a budget that the Congress could use in developing its appropriations. Before nobody knew what the figure was. The President sent his budget up and it would sort of be pushed to the side and the Appropriation Committees would do their job and when it was all over you would total up what the Appropriation Committees had appropriated and that was the budget, basically, plus the entitlement programs. In this case, with the budget committees, you actually had a structure now in the Congress where they would try to come up with a figure, a goal for the Congress to reach in making its appropriations and other expenditures, the entitlement expenditures.

01-00:31:18

Sharma:

And did you experience pushback from the other side? So if there were people pulling towards spending increases, there were people in the right who were upset at the levels of spending?

01-00:31:28

McIntyre:

Yes. We continued to get criticisms. I never will forget. One of the staff at the Chamber of Congress criticized us for our expenditures at EPA and some of our regulatory expenditures. We increased the budgets of various regulatory agencies. So, yes, we had some pushback from the other side saying we were spending too much.

01-00:31:55

Sharma:

One of the interesting stories of the Carter years with respect to the budget and the deficit is this push for the Balanced Budget Amendment. If you were involved directly in the Carter Administration's counter war against the

budget amendment and if you can just describe how people in the White House viewed that.

01-00:32:18

McIntyre:

Well, when President Carter was governor and when I was the director of the Office of Planning and Budget in Georgia, we operated under a Constitutional requirement to balance our budget. So that was a familiar concept with us. When we came to Washington, as I said, we realized that there were a lot of things that happened to the budget that were beyond our control, such as the so-called automatic stabilizer programs when you go into a recession and so forth. So when you really analyze some of the proposals for a balanced budget amendment, one could conclude that it could take a bad situation like a recession and run it into a depression. We were not in favor of legislation that would do that. We felt that it was important that there be some flexibility for policymakers, the President and members of Congress, other members of the Executive branch, to be able to look at what was going on, evaluate the situation and then make recommendations to deal with it.

For example, take right now. We've been in a serious recession. If we'd had a balanced budget amendment, it would have been an utter disaster for this country. What would we have done to fund the troops in Iraq and Afghanistan? What would we have done for unemployment benefits? It would have been a disaster, in my opinion, and I'm a person that comes from a very conservative fiscal background and believes that the government ought to be responsible in its spending patterns and came out of a state that required a balanced budget. But after analyzing the situation at the federal level, it just didn't make sense. It could create a real disaster.

01-00:34:23

Sharma:

And was that view widely shared within the Administration?

01-00:34:24

McIntyre:

I think so. Yes. I don't recall anybody in the Administration that was saying we should support a balanced budget amendment.

01-00:34:36

Sharma:

Do you recall anybody actively lobbying against it?

01-00:34:38

McIntyre:

I don't recall at this point. I'm sure we probably did make our position known about it. I believe Senator Byrd, not from West Virginia, from Virginia, Senator [Harry] Byrd from Virginia used to have an annual bill. Put a bill in every Congress that would require a balanced budget. I used to talk to him about it and he'd always quiz me about it at hearings and I'd tell him I didn't think it was a good idea and why. But we did have occasions where we would be asked in testimony whether we supported it or not. But I don't recall whether there was a specific effort to try to stop it. Frankly, it never got any steam up.

01-00:35:24

Sharma: Oh, I'm not so sure about that. There were measures passed in twenty-nine states. States do that.

01-00:35:34

McIntyre: Oh, I'm talking at the federal level.

01-00:35:36

Sharma: No, but to create a Constitutional amendment for a balanced budget. Came somewhat close to passing but I'm not sure we can check that. One last thing about your relations with Congress. I'm sort of interested generally in relations, if there are any, between OMB and the CBO and how those two institutions do or do not work together. You were there more or less at the birth of the CBO as an institution. Can you describe that a little bit?

01-00:36:08

McIntyre: Well, they really have different functions, CBO and OMB. While they both make budget estimates and all, the OMB is there to serve the Executive Branch and its responsibility is to reflect the policies of the President in the budget. OMB also had different ways of estimating spending on certain programs. It has different assumptions, say, than the CBO on certain federal programs. And CBO is there to be "an independent voice," coming out with expenditures, proposals based on what the current policy or what the Congress is proposing.

President Carter at one time asked us to see if we couldn't reconcile some of our differences with CBO and I believe maybe Alice Rivlin was the director at the time. I can't recall.

01-00:37:18

Sharma: Yes.

01-00:37:19

McIntyre: Anyway, we actually had a meeting between OMB's top staff and CBO's top staff, and we went through why we had differences in assumptions and why we had different numbers for certain programs. It became clear to me that we could never reconcile those differences and those kinds of things. Now, obviously if you've got some differences in a particular program, you might be able to sit down and at least understand why you have those differences. But they really have two different roles, and after that one effort, I really didn't try again to reconcile the differences between CBO and OMB. I just took it as a fact that we've got differences and they're there and we can explain why we have differences.

01-00:38:15

Sharma: Did your opinion have any effect on the Administration's success in getting its budget priorities through?

01-00:38:22
McIntyre:

I don't think it affected them one way or the other. We just understood that we had differences and we were not going to be able to resolve those differences. They came at a problem from one direction, we came at it from a different direction.

01-00:38:36
Sharma:

I see. Did you make any efforts during your time to change the way in which the budget was forecast in OMB? I'm thinking of, for instance, this debate between dynamic versus static scoring or—

01-00:38:50
McIntyre:

No. That basically deals with the tax side. No, we didn't. That came later in the history of that.

01-00:39:06
Sharma:

Or using the current services baseline?

01-00:39:10
McIntyre:

We did have issues about current services and what went into the calculation of current services and what was the baseline. We did have some issues with that and we tried to resolve those with CBO when we'd have an issue about that. And I did look at that. I always had a problem with automatically assuming inflation of the current services budget. Always had a problem with that because that basically takes away your ability to make decisions. If you're going to put a budget on automatic pilot, we don't need people to make policy decisions about it and such. And I always had a problem with that but that's the way the Congress looked at it. That's the way the interest groups looked at it because their position was that current services is what would be needed to keep the level of expenditure that they needed to keep the current services going. And I always looked at it, well, part of the budget analyst job is to look at the program and see whether you need to continue to spend the same amount in a given year. But I was not able to convince the Congress and others that we shouldn't have a current services budget. But that was an issue that I had.

01-00:40:24
Sharma:

And in your Miller Center Interview, and I think this might feed into what you were just saying, you described your relative isolation within the Administration on the deficit issue. I think your quote was that 99.5% of the people in the Administration did not believe a balanced budget was important and the other .5 percent were you and Van Ooms, your chief economist, and Hubert Harris, the Congressional liaison director.

01-00:40:52
McIntyre:

That's about right.

01-00:40:53
Sharma:

And can you go into that a little more, because I think that's a very interesting insight into the Carter Administration's economic—

01-00:40:58
McIntyre:

Yes. Like I said, President Carter was a fiscal conservative. He felt very strongly that we should look very hard at federal spending and try to curtail the growth in federal spending. Ideally he would have liked to have gotten to a balanced budget. There were other staff in the Administration, particularly domestic policy staff and the Vice-President and all of the department heads, who felt very strongly that we were Democrats, we needed to spend and fund Democratic programs. So they were not as concerned about a balanced budget or trying to achieve a balanced budget as some of us in OMB were. So in that sense, I was probably a lone voice in the Administration, other than the President, trying to curtail federal spending with the goal of achieving a balanced budget. So it's just the nature of the people in the government, where they came from, what their philosophies were. And, of course, you got to remember that's part of OMB's job in the first place.

01-00:42:20
Sharma:

Right. There's going to be an institutional bias towards—

01-00:42:22
McIntyre:

There's an institutional bias to curtail spending, whereas if you're an agency head or if you're in the domestic policy staff, there's sort of an institutional bias to develop new programs and spend more money.

01-00:42:37
Sharma:

Right. To fight for your turf, if you will. Certainly.

01-00:42:38
McIntyre:

Yes.

01-00:42:39
Sharma:

That's interesting. I was hoping you could delve a little bit more into your own economic philosophy and this idea of the deficit being not just a problem with regards to intergenerational equity, like you mentioned previously, but also a drag on the current economy. And it seems as if, and please correct me if I'm wrong, the Carter Administration was at a transitional moment in history in a lot of respects and particularly a transitional moment in the history of economic thought, where the deficit went from, and deficit spending, going from being seen a way to stimulate the economy to this notion that deficits actually produced a drag on the real economy by crowding out government borrowing, crowding out private borrowing and increasing interest rates and the like. And I want to get a sense, in your opinion, how you thought about the deficit affecting the economy presently and into the future.

01-00:43:47
McIntyre:

Well, as I said, I came out of the school of believing in a balanced budget and because I felt that that would give you the greatest economic efficient for the economy if you could run a balanced budget for the federal government if the economy itself was in good shape. And I think President Carter was a transitional President. Looking back on it at the time, I think we were sort of

at the end of a cycle. As I said, when I got to OMB, my understanding of the role of the automatic stabilizers was enhanced, and I could see why maybe, in certain circumstances, you just couldn't balance the federal budget. But on the other hand, I did feel that we should continue to try to operate a tight fiscal policy and that we should strive to hold federal spending to what was necessary, and not have a lot of new programs and start efforts that would increase spending in the future, that would put more pressure on the budget. So I guess I come at it myself from a fiscally conservative perspective. And I align myself with where President Carter was in terms of how he viewed the budget and its role in funding the government.

I did think that large deficits, in a period of where the economy was performing well, could create inflation and I was concerned about that and I voiced my concerns about that as we prepared the budgets and had presentations to the President. From an overall fiscal policy perspective. The problem was that we also needed to have an accommodating monetary policy, and we didn't have control over that. And I think it sort of exacerbated somewhat our fiscal policy.

01-00:46:06

Sharma:

Right. And do you remember being in the minority with regards to your concerns about the inflationary affects of deficits?

01-00:46:15

McIntyre:

Oh, yes. I was in the minority on that.

01-00:46:18

Sharma:

Within the White House?

01-00:46:18

McIntyre:

More people in the White House were concerned about unemployment.

01-00:46:24

Sharma:

What about with regards to thinking in general at the time, in that sense.

01-00:46:28

McIntyre:

Well, thinking in general, we had a group of people who, as I said, came from the background of we got in after eight years, let's get some Democratic programs going. Let's spend money on our Democratic programs. I think there was a difference of opinion about what the American people were really looking for from their government at that time. I was certainly in the minority on that. I was not for starting major new programs. I was for improving some of the programs that we thought were effective, like Head Start, as opposed to starting new programs. Let's put our money into programs we know are effective. I was also concerned about some of these efforts to create jobs. The Jobs Program. The so-called CEDA grants and things like that because at the state level I had experience with those things and they did not always work. Revenue sharing and those types of things. The states did what they're doing

today with this money. They would continue programs that they otherwise wouldn't have continued.

01-00:47:58

Sharma:

So in this respect the Administration was also at a transitional moment with respect to government spending and thinking about the welfare state.

01-00:48:01

McIntyre:

Yes, I think so. We did have divergent-thinking people in the government. I don't know if this was good or bad, but it was a fact. We had people that just had different political philosophies that were all Democrats. I certainly had a different political philosophy from some of the folks on the domestic policy staff.

01-00:48:23

Sharma:

It's a fascinating contrast with the Reagan Administration, which at least in the first term seems to have had such an ideological cohesion and consistency. I don't know if that's just the perspective from afar contrasted to the Carter Administration, where there was much more—dissent might be too strong of a word—but lack of an ideological consensus. Is that the impression that you get?

01-00:48:44

McIntyre:

Well, I think there was a difference of political philosophy in the Carter Administration. I would say that the President himself was very fiscally conservative. He had to be pushed into some of these other programs by his advisors. Some of them he jumped into willingly but some of them he had to be pushed into. My recollection of the Reagan years is they had a unifying theme. Government is evil and we need to do what we can to restrain government. I find that ironical because we saw some of the fastest growth in employment, government employment, under the Reagan Administration. We also saw some of the fastest growth in government spending occur under the Reagan Administration. But people don't realize that. They don't reconcile those facts with the Reagan Administration.

01-00:49:46

Sharma:

Well, do you think that maybe Reagan was particularly adept at cultivating an image of Republicans as fiscally responsible?

01-00:49:56

McIntyre:

He was. Look, President Reagan had an ability to communicate. I haven't seen anybody else—maybe Clinton came close to it. But Reagan had a great ability to communicate and I think our Administration had a hard time communicating what it was doing and why it was doing what it was doing. And, again, I point out we were in a transitional phase of our history. We were at the end of a period of a lot of reliance on government spending. We'd come out of the Vietnam War and we were trying to adjust to that. A lot of people accused President Carter of cutting military spending. If you look back at his budgets in 1978, you'll see that the line went down and in 1978 it started

coming back up because he increased spending by three percent. So we didn't—whether we were able or not—communicate our achievements and some of our political philosophy as well as perhaps we could have.

01-00:51:06

Sharma:

Reading your Miller Center interview, I was struck by what you at the time—and this was, again, in 1981—described as the negative effects of Carter's management style and the fact that he himself got so immersed in the details of the budgetary process, per se, or really the nitty gritty of governing in general, to the detriment of his ability to articulate a broader message.

01-00:51:33

McIntyre:

Well, I think he was very detail oriented. Now, from a staff perspective that was a great thing because you knew your documents were going to get read. When we'd get stuff back from him, it actually had notes on it. You knew he had read it. Most of all, President Carter is an amazing person. He is extremely intelligent and that's one of the reasons I liked working for him. You knew that if you sent something over there, it would get read and he would understand what you were saying. When we got our papers back that we'd sent over for him to make decisions on, he'd not only make the decisions but he would comment on them. So you knew he had actually read and understood what you were sending him. It was a great experience and I think that was a feature, like I say, from a staff perspective, it made us want to work harder for him.

On the other hand, by getting into some of the details, I do think we didn't communicate a broader message about what we were about and what we were trying to achieve. I think had we been able to do that, it would have helped the Administration significantly. For example, we got killed on cutting the water projects out of the budget in 1977.

01-00:52:53

Sharma:

Right. Right after you came in.

01-00:52:56

McIntyre:

And nobody ever really explained that we were trying to cut out this waste, fraud and abuse that everybody is against. These were wasteful programs. We're just trying to do something that Carter said he was going to do. For some reason, that didn't get communicated. It looked like we were being vindictive towards individual members of Congress or something. It was a communication issue as much as anything. Because what he was doing was what the American people wanted done and that was to eliminate some of the wasteful projects in the government.

01-00:53:26

Sharma:

Right, right. And maybe an underestimation of the Democratic Congress's priorities.

01-00:53:34
McIntyre:

Right. That's right.

01-00:53:36
Sharma:

I would like you, if you can, to delve a little bit more into Carter's fiscal conservatism, because I think there are two schools of thought about this. On the one hand, there are those who see Carter's fiscal conservatism as the natural outgrowth of his personality. This is a person who was somewhat Spartan himself and it seems like the way he probably manages his household, his frugality, translated neatly into his governing style. Then there's another school of thought that thinks that this might have been a little bit more complex in that, yes, Carter was a fiscal conservative, but he wasn't, at least with respect to subsequent administrations, so fiscally conservative. His turn towards a balanced budget was really something that came about during his Administration through an understanding that deficits were causing high levels of inflation. I don't know where you fall.

01-00:54:32
McIntyre:

I probably fall somewhere in between on that for this reason. Carter is normally a frugal person just by nature. Yes, I told you that we would go out to the governor's mansion on the weekends and we would work from like eight o'clock in the morning until 5:00 in the afternoon on the reorganizations. The most luxurious meal I ever had there was a club sandwich. That's just the way it was. He was very frugal. He was frugal in other ways. I recall that as we were developing the budgets, he would ask us our opinion, the budget professionals' opinions on whether we thought they could do with less. If we told him yes, then he would often go along with us. I recall in our meetings with the Secretary of Defense. Generally those decisions were made with me, President Carter and Secretary Brown in the room. Just the three of us. As a military person, he wanted to certainly support Secretary Brown. He pushed Brown to make real priorities. So he was frugal.

01-00:56:07
Sharma:

To cut certain wasteful aspects of military spending.

01-00:56:08
McIntyre:

Yes, that's right. He had him actually make priorities. What's your priorities here. And the balanced budget concept, I think that came out of his role as Governor of Georgia, this concept of a balanced budget. That's not something he thought about when he got to Washington.

01-00:56:32
Sharma:

Right. This is sort of a thesis that we've encountered in the literature. That governors are perhaps more fiscally responsible than non-governors. But the George W. Bush Administration sort of blows that theory out of the water.

01-00:56:46
McIntyre:

Well, yes and no. Part of that goes is he created the drug program, Medicare Part D, and then he also got us into a real spending binge on Iraq and Afghanistan.

01-00:57:03
Sharma:

And the tax cuts.

01-00:57:04
McIntyre:

And the tax cuts. And the tax cuts.

01-00:57:06
Sharma:

Right. Well, we have five minutes on this tape. Do you have any follow-up questions right now?

01-00:57:12
Meeker:

Lots of follow-up questions, actually. Why don't I just start by asking a few questions back to this early discussion that we were having about restructuring. You had mentioned that there were challenges when dealing with restructuring in Congress in the agencies and in the public overall. And you explained it in Congress. You explained it a little bit in the agencies and explained it a little bit in the public overall, why there were challenges. I'm wondering if you can provide some more specific examples of the kinds of restructuring that you were seeking and what the fate of those restructuring efforts were.

01-00:58:02
McIntyre:

Well, I can't remember all of them because it's been a long time. I can tell you that one that made some sense that we really couldn't get off first base on was we thought there was some good arguments for restructuring parts of the Interior department and the Agriculture department. They both managed land. And they have a lot of other similar responsibilities. That's one that we just couldn't even get off the ground. There was so much opposition on the Hill and among the various interest groups to try to pull together some of those activities. And there were others. Like I say, it's been a long time. We'd have to go back into history and really see what the recommendations were to refresh my memory on some. But I do remember there were a number of things that made all the sense in the world on paper. But when you started trying to actually implement them, because of Congressional committee opposition and opposition of the interest groups that supported those programs, it just was untenable. You have to make a decision as to where you want to fight your battles on these issues, and I think that's where some people make mistakes--they try to fight all the battles and you can't fight all the battles. So you have to decide which ones are the most important to you and which ones are you going to allocate your resources to. That's what we ended up doing.

01-00:59:38

Meeker:

What was the calculus that went into that decision-making process? Was it you would fight the battles that would be perhaps the greatest money saving capability or have the greatest impact on reducing the bureaucracy and increasing efficiency. How did you determine what battles were worth fighting?

01-00:59:59

McIntyre:

Well, I think we tried to decide. A number of things went into our decisions. One was what were the logical interactions? What kind of programs had some logical interaction and can we consolidate those programs under one agency? Once you make that decision, then can you run more effective programs that way? And then obviously one issue was savings. Could we save some money by doing this, by cutting overhead and that sort of thing. The same thing a company makes when it acquires another company. Can we get some savings through efficiencies and reducing overhead. And those were the kinds of things that went into the decisions and after we'd sort of made some decisions about, well, these programs are similar, they ought to be under one agency, then we'd start testing those ideas first within the Administration to see what kind of pushback we'd get and then once we got through that process we'd start testing it outside with the interest groups and the folks on the Hill and then we'd make a decision. The only reorganization proposal that was simple was the reorganization of the Executive Office of the President and the reason that was simple, there's only one person that had to make that decision, and that was the President.

01-00:61:30

Meeker:

Can you offer me any examples of successful reorganizations? Maybe outside the Executive Branch? The Executive Office.

01-00:61:40

McIntyre:

I think the Department of Energy has been a successful reorganization. I know some people would like to eliminate it but nobody has really put a successful proposal out there. Not just a successful one, but even a serious proposal out there to eliminate. I think that's been a very successful reorganization.

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02-00:00:00

Sharma:

This is Patrick Sharma with James McIntyre for tape number two. I just want to, if you will, help us place Carter's fiscal record within a broader context. You gave the Miller Center Interview in 1981, just one year after you had left office. Reading it, it comes across sort of pessimistic about Carter's legacy and sort of see it as not a failure but a missed opportunity, at least. I was wondering, with the benefit of more hindsight, if you could talk a little bit about what you see as Carter's successes in the economic sphere or at least if time has changed your opinion about Carter's fiscal legacy.

02-00:00:59
McIntyre:

Well, if I sounded pessimistic it's because we didn't achieve some of our goals. I thought, given the circumstances in which we found ourselves, we did a good job of trying to restrain the growth in federal spending, although as I said in 1980, with the recession, we sort of lost control of that, as anybody would. But I think that he brought some attention and focus to the budget deficit. He helped make the Congressional budget process work smoothly from the executive branch's perspective. By working closely with the budget committees in the House and the Senate as that process was in its infancy and beginning to develop its own processes and traditions, I think he also elevated OMB's role somewhat because he really relied on OMB to give him recommendations and guidance in many areas that other President's didn't, defense being an example of that. He really relied on OMB's recommendations, although he and the Secretary of Defense were the ultimate deciders on those. But I was always in the room and had a role to play in defense. But he increased defense spending beginning in 1987 to help restore our defense capability. In fact, the story goes that when Stockman came in, President Reagan had campaigned on how he was going to increase defense spending, and when they came into office they saw that the budget was a lot larger in defense than they had realized. At least that's the story that I've been told. So he did turn around defense spending and I think that was important for the national security of our country. Started a lot of new programs, technology based programs that were very important and helpful. He also supported our efforts to try to get some control over the regulatory activity of the federal agencies and to that extent he supported the establishment of the Office of Information and Regulatory Affairs, which had review authority over certain regulations that were to be issued by federal agencies. He devoted a lot of time and attention to the budget. The budget hearings with the President were not just things that we went through, a step to go through before we filed. He actually got very involved in the policy decisions. He made those decisions. He enjoyed that process. So I think that that gave OMB a lot of stature among the agency personnel, that the President listens to OMB.

02-00:04:14
Sharma:

And do you think that had not been so much the case in the Ford administration?

02-00:04:17
McIntyre:

Well, I've heard varying reports. I've heard varying reports about the level of interest of certain administrations in the budget process but I think Carter really relied on the OMB as one of the sources for information for him to really make decisions on policies.

02-00:04:37
Sharma:

So when we think about your legacy as OMB director, what would you see as the main set of changes that you instituted there? We'd spoke a little bit about the Congressional liaison staff and then sort of introduced the creation of the Office of Information and Regulatory Affairs.

02-00:04:54
McIntyre:

In addition to that, I think of two other things. I think it was in 1978. It might have been in 1979. We published a budget piece on the aging or the graying of America, which brought a lot of attention to the impact that the baby boom generation would have on the budget. This was thirty years ago that we did this. I think that was the first time that I recall, at least, that such a thought piece had been put into the budget as part of the budget process, to get people to start looking at some of the entitlement programs that this baby boom generation would get the benefits of, such as Social Security and the Medicare programs. So I thought some forward looking things like that was an important thing that we added to the budget process. Another important thing that we did is we came up with a credit budget. For the first time we began to look at the total credit that the government was sponsoring. For example, at that time we had loan guarantees. We had the various TBA guarantees, loan commitments, and other programs, economic development administration. There were a lot of programs in the government that were funded through loans, federal loans, and loan guarantees. That had never been really looked at a whole piece.

02-00:06:42
Sharma:

Sort of a type of implicit spending.

02-00:06:45
McIntyre:

Some of it was explicit but it was scored differently and didn't show up as a direct expenditure until such time as you actually had to spend the money. We had the commitment to a loan but it only shows that the amounts you're actually spending out in the budget. We had these commitments and they were sizable. So we came up with a credit budget to try to show for the first time the total obligations of the federal government through its loan and loan guarantee programs.

02-00:07:16
Sharma:

Did you experience any pushback?

02-00:07:18
McIntyre:

There were a lot of concerns. We got a lot of concerns about it because it was showing that the federal government was—look, you can accomplish the same result with a loan guarantee as you can with a direct expenditure. The money's just coming out of the private sector and the government is backing it. But if we had shown it as a direct expenditure, then it would show up as part of the deficit. So we were concerned about the growth of these programs and what they meant for the future of the country, so we came up with a credit budget to try to show the impact of these kinds of programs. I left OMB as a highly regarded professional organization having a lot of influence over the Presidential policies.

02-00:08:14
Sharma:

I don't know if you're willing to or feel you're in a position to, but reflect a little bit about the early years of the Reagan Administration, because it seems

as if OMB then became a front in the Reagan revolution, both with respect to Stockman's work on the budget but then also with this Office of Information and Regulatory Affairs really leading the charge to deregulate or to scale back a lot of the regulations of agencies and if this is something you expected and the Carter Administration was moving towards.

02-00:08:52
McIntyre:

I really can't reflect too much on my successor. History speaks for itself in that regard. I just direct you to what has happened over the years there. With respect to their use of some of the tools we put in place, he also used the credit budget significantly, Stockman did. I think we expected those tools to be used. They were good tools. We would have used them had we been elected to another term, particularly the OIRA tool. It's an important tool to help coordinate the policies of the Administration and to make sure that agencies are staying within the bounds in terms of what they are requesting through regulations. And regulations are a very important way to get policies implemented and things done that you may or may not have in legislation itself. You implement the legislation through the regulation. We wanted to make sure that the agencies didn't overstep their bounds, that their requests were reasonable, and they didn't impose a burden on the American people, the requests. So I expected OIRA to be used. As I said, I think the Reagan Administration found out there were a lot of things different in the budget when they got there than what they thought was in the budget. And also, I'd look at history. I'm not sure what role the director played in setting the defense budget and working with the defense budget and that sort of thing, but you could look at history and find that out.

02-00:10:44
Sharma:

But within the Carter Administration, that OMB did play a significant role in formulating the defense budget.

02-00:10:50
McIntyre:

Absolutely.

02-00:10:52
Sharma:

And then I was hoping we could step back from the Carter Administration and get your thoughts about the debt and deficit issue and budgeting issue more generally. I know you haven't paid so much attention to it subsequently but your thoughts about the budgetary process itself and the relationship between the President and Congress and the making of the budget and how you've seen that evolve since your time in the White House and then your thoughts about some of the political constraints that are involved in attempts to reduce the deficit.

02-00:11:31
McIntyre:

Well, I'm not sure we have a budget process except in name anymore. There was no budget resolution this year, for example. I realize it's a political year. It's a tough year but that doesn't mean we shouldn't act in a responsible way

and have a budget in which we show our government's priorities. I think that's been true for a number of years, not just this year, not just this year. But I think for a number of years we've seen the budget process basically—disintegrate may be too tough of a word—but it certainly has eroded significantly on the Hill, at least. And I'm not sure exactly what role the President's budget plays anymore in terms of influencing the hill and its recommendations, influencing members of Congress. I am very concerned about the size of the country's debt. Not so much about this year's debt but the implications, say, for the future and over the next ten to twenty years and what it means. I view that the current trend is going to be unsustainable in the future. We can't continue to go the route we're going without making some major adjustments in my opinion. The quicker those adjustments are made, the less painful they're going to be. So I am very concerned about where we're headed from a budget and debt perspective in this country.

02-00:13:23

Sharma:

And how optimistic are you about the capacity of government to implement those changes?

02-00:13:17

McIntyre:

Well, it's really interesting. Our government has always risen to the occasion. The problem is it usually takes a crisis for us to do it. We have a hard time planning ahead in our government. And mainly because of the election cycle. The House has to get reelected every two years and that causes members to look more toward the short-term than the long-term. But I do think we will be able to deal with it. There's a lot of attention being focused on the unsustainability of the current trend lines in the budget deficit and in budget expenditures and also the revenue side. I think we're sticking our heads in the ground. We really need to reform our tax code in this country. We've got an income tax code that is just awful, in my opinion. We need to reform that. We need to look at some of the programs that we've got in place that are going to continue to grow substantially over the next few years and determine whether that's the kind of growth, one, we want and two we can sustain. So I think that there is some attention. We got a couple of commissions looking at the budget process right now. They'll be coming up with recommendations but I think it's really going to take some leadership in the Congress to get this done and hopefully we'll get that from them.

02-00:14:45

Sharma:

Martin, do you want to ask some follow-up questions right now?

02-00:14:54

Meeker:

Most of the questions that I have are points of clarification that shouldn't take more than a few minutes. The first one, though, is maybe the more conceptual question. I think you just got to it a little bit but I'd like you to talk about it in the context of the Carter Administration. That is, the more people we've talked and the more reading we've done—of course, there's a pretty big distinction made between deficits in the sense of annual budget deficits and

the accumulated national debt. When you talked about the current concern of this amongst yourself and President Carter during his Administration, was the concern mostly focused on the deficits, the annual deficits, or on the accumulating national debt during that period of time?

02-00:15:38

McIntyre:

Well, at that time, I think while we recognized the accumulating national debt, the real focus was more on the deficits. I don't recall the numbers as to who was buying our national debt back then and all of that. I don't recall that. But it wasn't a cause for concern as much as it was for annual deficits and sort of the implications for the future. Looking back, if we could get to those levels of debt, even as a percentage of GNP today, that would be wonderful if we could get back to something like that. But we focused mainly on the deficit. But that was actually a result of trying to focus on restraining federal spending. The deficit would sort of fall out of that. We too often forget the laws of arithmetic when we're talking about all these budget policies. But you can't overrule the laws of arithmetic. When we were budgeting we tried to restrain the growth of federal spending. We also tried to have a tax policy that would fund what we were talking about, recognizing that the difference between the two would be our resulting deficit.

02-00:17:08

Meeker:

It seems like it's reversed a bit. It seems like nowadays people are more concerned about the accumulated national debt, particularly in relation to the expense of servicing the interest on that debt. Assuming that this is a correct interpretation, I wonder if you can just sort of give me a very general sort of ballpark sense of maybe when the tide changed, when people started to pay a little more attention to the national debt, not to the expense of deficits, but seeing that now that has become a primary issue.

02-00:17:46

McIntyre:

Well, I can't give you an exact date but I think it was probably sometime in the latter part of President Bush's Administration.

02-00:17:54

Meeker:

Bush 43?

02-00:17:56

McIntyre:

Yes, Bush 43.

02-00:17:56

Meeker:

So a fairly recent—?

02-00:17:58

McIntyre:

Yes, I think it was fairly recent. You have to remember, we had a balanced budget in the late 1990s. We had a surplus, in fact, in the late 1990s. So I think it's fairly recent. And we were actually paying down some of the national debt. So I think it's more of a recent concern because it's mushroomed. The national debt has just mushroomed and the trend lines are

steep—I've forgotten the percentages of our GNP but if you look at the trend line, my recollection is that it's going to be a large percentage of the GNP here very shortly.

02-00:18:34

Meeker: Well, the deficit's approaching eleven and the debt is somewhere about sixty or maybe in the seventies.

02-00:18:41

McIntyre: It's up there pretty high. In the sixties or seventies, if I recall.

02-00:18:45

Meeker: You had also mentioned—I think the phrase you used was zero balance or zero base budget.

02-00:18:50

McIntyre: Zero based budgeting.

02-00:18:52

Meeker: Zero-based budgeting. Can you define that for us?

02-00:18:53

McIntyre: Zero-based budgeting was a management concept that was developed by Peter Pyhrr. I don't remember when he developed it. We actually used it in Georgia as a process of developing the budget. Basically what you do with that is you ask your program managers at the agency level and then ultimately the head of an agency, the secretary, for example, to build their budget up from the ground zero up to a certain percent, it might be 110% of what they're currently getting, and establish priorities for each level of expenditure. And it works. It works very well in private industry. And it actually worked fairly well in Georgia, where Carter instituted it when he was governor. And so one of his campaign statements was that we would institute zero-based budgeting at the federal level. So that was one of my roles when I took over as deputy, since I had actually dealt with it in Georgia government, was to oversee the implementation of zero-based budgeting. And so we did develop a circular in terms of telling agencies when they put their budgets together, here are some of the things you need to do to comply with the zero-based budgeting concept.

It worked very well in agencies that had established goals and objectives. It didn't work very well in agencies that didn't have goals and objectives. For example, EPA did a great job with their budgets. A lot of people, like the Secretary of Health, Education and Welfare said, "I'm not going to set priorities or make one program more important than another program. They're all important to me." And we ran into that.

02-00:21:10

Meeker: And that would have been Califano?

02-00:21:13
McIntyre:

Well, he was the first. Yes, he was the first Secretary. But to the extent we could force the agencies to establish their priorities, we did. But we had some great success in EPA and Agriculture, Defense, the CIA did a great job with their budget, in their zero-based budgeting. So the point is agencies that really had goals and objectives could do a good job. Agencies that didn't have goals and objectives, they'd gnash their teeth and they reluctantly complied but, frankly, the results were not very good.

It was a mixed bag of success. Part of the problem, and we rectified that the second year that we used it, is it doesn't really make sense for an agency to try to establish priorities saying like the secretary is going to be number one priority. You got to have somebody to run the agency. So what we did is we said, "Look, what we really want you to do is give us your priorities between 90% of current budget and 110% of current budget." That made more sense and we were able to have more success in doing that. But you have to understand, too, that zero-based budgeting was a management process. It's not a budget process. Budgeting is different. Zero-based budgeting is just a tool that you can use and when viewed that way it was a useful tool for us at OMB.

02-00:22:51
Meeker:

And it sounds like you were trying to meld them together in some fashion.

02-00:22:53
McIntyre:

Well, you had to meld them together to find out what the priority is from a budget expenditure side. But what I'm trying to say is the press in particular said, "Well, use zero-based budgeting and you're going to get reductions automatically." My response is, zero-based budgeting is not a budget process, it's a management decision-making tool. It helps you establish priorities on the margin so that you can decide whether you want to fund this program over that program. We also did a cross cutting agency priority setting within OMB in which we looked at what the agencies were saying were their priorities and then we tried to make decisions among the agencies, within OMB as to which priorities we were going to recommend with a certain amount of money.

02-00:23:49
Meeker:

A little bit back to the OMB/CBO relationship. You had mentioned this meeting where you tried to sort of reconcile some of the differences and see if you could pursue your agendas together but you had described the nature of the offices and the nature and the goals of the offices were so different that it was made clear in that meeting that the differences were more important than any commonalities. And I'm wondering if just kind of very briefly you can give me a sense of according to your perspective what the different goals of OMB and CBO would have been so that they weren't working at the same purpose.

02-00:24:34
McIntyre:

Well, OMB is there to support the President. It's to develop a budget that expresses the President's priorities. In doing that, there are hundreds of assumptions throughout the agency budgeting process that underlie the numbers that you come up with. What assumptions are reasonable, people might differ on. So we ran into that, some differences in the assumptions that would underlie the budget recommendations. I don't recall all of the details about CBO's role and purpose in life, but my recollection is that CBO saw itself as "this independent entity" that was to come up with numbers for the Congress in an independent fashion. So they went about their job a little differently than we did in OMB because they had a different objective, different goal that they had to meet, than we had to meet. They had different models. They had different econometric models and just a tiny difference in the assumptions that underlay those models would result in different outcomes. So I wasn't going to be able to get CBO to redo its econometric models, and I realized that.

02-00:26:28
Meeker:

And vice versa.

02-00:26:29
McIntyre:

And vice versa. They weren't about to try to convince us to redo ours and we wouldn't have redone them. So those are the kinds of things that went into the decision that, look, we are both agencies made up of professionals. We have different objectives and as long as we explain where our differences are, that's the most we can do.

02-00:26:50
Meeker:

And the final question was you had mentioned that you thought deficits contributed to inflation and you were somewhat alone or there weren't a whole lot of people that shared this—

02-00:27:03
McIntyre:

I don't think I said that. I think I said that some of the White House staff are more concerned about unemployment and I think we were concerned about the overall health of the economy at OMB and we focused both on the impact the fiscal policy would have not only on inflation but on unemployment. So we tried to look at it from a more holistic perspective.

02-00:27:36
Meeker:

Okay. So from an economic perspective, you didn't say that you thought that deficits contributed to inflation?

02-00:27:42
McIntyre:

I did not say that.

02-00:27:44
Meeker:

Okay, all right. Then I somehow missed that.

02-00:27:47
McIntyre:

If I did, I didn't mean to say it that way. Now, there may be sort of circumstances in which the size of the deficit might contribute to inflation.

02-00:27:56
Meeker:

And I was going to ask you about what you thought the mechanisms of that might be.

02-00:27:59
McIntyre:

Well, it depends on the situation of the economy. It also depends on the monetary policy. The Fed can always put a brake on the fiscal policy. If the fiscal policy is too loose, the Fed can put a break on it. I'm not sure if fiscal policy can put a break on the monetary policy. I'm not sure it works that way. But then, I'm not an economist so I don't know. I don't know the answer.

02-00:28:29
Meeker:

Patrick, did you have anything else or—?

02-00:28:31
Sharma:

No. Why don't we just do my final question. So just one final wrap-up question that we're asking everyone is not just your impressions about the current discourse about the debt and the deficit, what you think has been missing from the debate and what, specifically with your historical experience, is missing from the debate about our fiscal track.

02-00:29:04
McIntyre:

Well, the most important thing is the political accountability that's missing. Only the people can do that. The electorate's going to have to let members of Congress and the President know that they are concerned about where we're going with this. That or you're going to have to have somebody step forward and take a leadership role in either the Presidency or key members of Congress, leadership of Congress to step up and take a role in saying you're concerned about the future of the country because of our debt levels and we're going to have to do something about it and we need to do something about it now for it to have effect ten, twenty years from now. And I think somebody will. If you look back, the Congressional Budget Act itself grew out of sort of a situation where there was no budget, there were agencies that had been operating on continuing resolutions for a year and a half, two years. They had not had an appropriation. It got so bad the public got riled up about it and the Congress passed the budget act. You had a real leader there. I think it was Congressman Bolling from Missouri, if my recollection is correct, who really stepped forward. He was a liberal Democrat, a very liberal Democrat who stepped forward and said, "We need to take some action now," to Congress. You're going to find somebody who will do that. I think people are beginning to realize just how serious the national debt is and what it means to the health of the country down the road.

[End of Interview]