Alan Cohen

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
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This is Patrick Sharma here with Alan Cohen, April 27, 2011, tape one. Mr. Cohen, or Dr. Cohen, I should say, I wanted to start this oral history by asking you how you first became interested in public policy issues and then economics.

Well, my first interest was back when I was an undergraduate at Grinnell College in Grinnell, Iowa and I was a physics major. But there were a lot of important public policy issues being debated at that time, including poverty in the United States and I was very interested in issues related to poverty in the United States and how we could reduce that. When I was a junior, I discovered a few schools were sprouting new programs in public policy analysis, master’s degrees or a doctorate in public policy analysis. I checked that out and I determined that it was what I was looking for—when I was a sophomore, I was wondering to what extent physics, what my work in physics, would be devoted to dealing with solving problems in the real world, contemporary problems, and I concluded that it wasn’t likely to be that great. But at the time I didn’t know about these public policy programs. And in my junior year I became aware of them and I looked into it and decided that if these were what they appeared to be on the surface that I would go in graduate work in public policy studies rather than in physics. Indeed, they were what I thought they were and I applied to a number of schools and I selected the University of Michigan’s public policy program and I went there for a master’s degree in public policy studies.

While I was doing an independent research paper there, on one aspect of anti-poverty programs I found that much of the research was coming from the Institute for Research on Poverty at the University of Wisconsin and I thought, “Well, maybe I ought to be there for my graduate work instead of at Michigan,” and it turns out that the public policy, work on anti-poverty work, was coming from, again, this institute for research on poverty. That institute was not a degree granting institute. It was a research institute primarily staffed by people who were in the economics faculty, PhD faculty at Wisconsin. And by this time I had developed a strong interest in economics and I was told that the best way to affiliate with the poverty institute was to come and join the PhD program for students in economics there. And that was music to my ears because I loved economics already. So I applied for that and I was accepted to the economics PhD program with a half time research assistance-ship at the Institute for Research on Poverty. So this is exactly what I wanted. And I went to Wisconsin and had a great run there. The poverty institute, I learned a great deal from that. The economics department was top flight.
When it came time to look for a job, I was offered a position at the Department of Health and Human Services, which was then Department of HEW, Health, Education and Welfare, and they had a shop, the assistant secretary for planning and evaluation, and within that shop, a shop for income security policy, which is what I was interested in, and I was given an offer to work there and I came to the office at then HEW in early January of 1979 and began working on public policy issues related to income security policy for low income households.

Not too long after I was there, President Carter decided that he needed to deregulate oil prices in order to deal with the energy shortages that we were facing in the US and he had a line in the speech which he said he was going to recommend $800 million per year for a program for helping poor people deal with higher prices that resulted from oil price deregulation. My boss at HHS, or at HEW, asked me to serve on a task force. There was a task force created, interagency task force. He asked me to serve on that. I did. It was phenomenal. We started this program and I think it’s a great program. It’s still well in force and—

Sharma: Which is this program?

Cohen: It’s the Low Income Home Energy Assistance Program.

Sharma: Right.

Cohen: And so basically I began work on that for much of the rest of the year and we eventually got something enacted into law that year and by this point I was well on my way in a career working on poverty issues, policy issues on poverty or anti-poverty in the government.

And then while I was at HEW/HHS, which was for four years, I was in contact with a number of people who work on Capital Hill as staff people and I was impressed by the access they had to their bosses and the fact that if we needed something legislatively we would send up our top people in the department with credentials a mile long to talk to a staffer who was quite competent and good but certainly didn’t have the credentials that the people they were speaking with had. But nonetheless it was important to do that because they had the ear of the senator or the congressman and they were the ones that helped formulate policy. And so I decided that I would be interested in maybe going into a job on Capital Hill, working for the Congress, and I was fortunate to be able to get a position working for the Senate budget committee minority staff, the Democrat staff. Senator Lawton Chiles was the new ranking member. He had a staff director named Rick Brandon and I interviewed with Rick, I interviewed with the senator and I got the position.
Now, what was interesting there is working on the budget committee we didn’t have a very large staff, so the whole budget was divided like eight ways among our staff and I got all of income security policy, which included not just low income programs but also unemployment insurance, civil service retirement, housing programs, social security and I had to learn that stuff real fast.

Sharma: Nothing too major, huh?

Cohen: That’s right. And I became extremely involved and very pleased with the role I was playing, what I was doing. And at the end of the first year, my staff director, Rick Brandon, asked if I would also pick up analysis of the big picture numbers for the budget picture. Deficits, outlays, revenues in broad categories like mandatory spending and discretionary spending and that kind of thing because at that point that’s how plans to reduce the deficit were being structured. Well, we’ll raise taxes by this much. We’ll cut defense spending by this much, whatever, and he needed somebody to be on top of the big picture numbers. And we had our brand new PC at that point, personal computer, and we could put this on the PC and have numbers or whatever. So I jumped at the chance to do that. I didn’t reduce any of my other responsibilities but I jumped at the chance to do that and that got me involved in the committee work in not just the income security policy but the whole broad picture of budget policy. I loved it and I’ve been doing that ever since.

Sharma: Right. Had that function, looking at the budget as a whole and projecting out into the future, been something that staff of the budget committee had done before? Or was that something that you were coming in—

Cohen: This staff had not been doing it before. It was brand new and the staff director wanted somebody on the staff to be working on that. And another factor is we didn’t have computers before then. So any quantitative work we needed had to go to the Congressional Budget Office. It had to be hand delivered over there and they had to hand-deliver it back or whatever. And then we had PCs. We had the capability of doing this work much more quickly and doing it in-house. As a consequence of that, perhaps that also gave us a spur to the ability to start doing these things in terms of looking at the big picture rather than just building up from the bottom.

Sharma: I see. To what degree do you think your charge with looking at the budget as a whole was motivated by increasing concerns about the deficits that were initiated in the initial Reagan years?
That was a huge impetus to what I was doing. When I jumped in, which was around February of 1983, we had projections of huge deficits for the federal budget. In fact, the deficit in FY83 turned out to be an all time record, at 6.3% of GDP. So there was enormous political pressure and policy pressure to try to do something to get the deficit down. And I walked into that, and I’m an economist, and that seemed like a very important goal to me and so I had no trouble. Working on those things was an impetus. Clearly I started working on them, and it was an impetus to working on this in my later career, which I did for the rest of my career. But there’s no question that the reason that that was front and center, Congress’s and the President’s attention at that point, was the size of the deficits that we were experiencing and the CBO and others projected that we would be experiencing in the near future.

Right. And do you remember any specifics on what you were asked, sort of legislative changes that you would be asked to calculate? Sort of proposals that were circulated for dealing with these large deficits?

That’s sort of what I was saying, is that the proposals weren’t necessarily seen as legislative proposals that were costed out. They were more as, okay, how much can we cut discretionary spending? How much can we raise taxes and that kind of thing. So it was more in the line of not, “Okay, here’s a bill, go cost it out,” but rather, “What are the parameters that we want to set for the budget in terms of these broad categories.”

And I just want to back up real quickly to your education at University of Wisconsin.

Right.

I’m curious the degree to which fiscal issues were discussed in your training or in your own research and then actually what your dissertation was on.

Right. I would say very little. They were discussed very little. This was not an issue that I was focused on. Of course, during that time the deficit wasn’t very big, either. So I remember the deficit under Carter projected to hit fifteen billion and that caused eyebrows to raise or whatever. So that’s pretty low compared to what was being done in the Reagan Administration after the President’s proposals were enacted for tax cuts and military spending and whatever domestic spending reductions there were. So I would say that it was not much of an issue and I didn’t really focus on it until basically I went to work for the budget committee.
Okay. Was your dissertation in line with your work on anti-poverty?

It was. My dissertation was entitled “Economics, Marital Instability and Race,” and the purpose of that was that there was—the men in black families had lower income on average than comparable white males and we also knew that black males were much more prone to experience periods of unemployment. And so the question I was addressing was to what extent to the fact that black men have lower earnings than white men and that they have more unemployment experience, to what extent does that increase marital instability in the black community relative to the white community. So I should add right now that the numbers were clear that marital instability in the black community was significantly higher than the white community. So the hypothesis was that these economic factors affected that and in order to understand that I had to look at the broad issue of what factors are connected with higher marital instability and that was the basis of the dissertation. So it was not just looking at African-American families. It was looking at all folks and then trying to see if the hypothesis looked at there would apply to black families in terms of their marital instability experience.

Okay. I see. Okay.

Sure.

So how would you characterize, if you had any, your views on fiscal policy before you entered government? Would you say you were a classic liberal who believed in the productive power of government spending or were you sort of a nascent fiscal conservative who was concerned about budget balance?

I was not very much concerned about budget balance. As the budget balance became an issue in the early eighties after the Reagan financial program, budgetary program, after President Reagan’s proposals were adopted, I’m sure I became aware of it then. To the best of my recollection, I believe that I felt that it was important to reduce deficits and that that was an important economic matter. Could you repeat your original question to me?

Obviously in economics there’s this notion that large government deficits are a drag on the economy because there’s crowding out and all this stuff.

Oh, right. Right.
And I’m just interested when exactly this emerged. If it’s a classic thought. But when it really emerged, at least in policy circles, but also in academic circles.

Well, it was not a big issue when I was at Wisconsin, which was through the beginning of 1979.

Was inflation discussed?

Inflation was an issue. Sure. Inflation was very high. Yes, inflation was a huge issue.

Did anyone attribute that to federal spending or in that way was there such a—

I think a lot of it had to do with the prices of energy going up. I don’t recall.

Okay. Well, let’s get back then to the Reagan years.

But let me just answer your question more directly, and that is that I got into the area of public policy because I felt that potentially there were ways in which good public policy could reduce or ameliorate problems, public policy problems. And, of course, my number one interest and my main interest, was on anti-poverty efforts. So I think I got into that because I was hoping that there were things we could do at the policy level that would reduce poverty.

So I think that was my orientation. It was more looking at it from what I was interested in, which was anti-poverty work. From that point of view, I was interested in public policy as a result of that.

Okay, okay. Great. Well, let’s pick up then with the early Reagan years and your transition to the budget committee.

Okay.

So you were charged with articulating or at least analyzing budgets at a macro level in addition to your work on income security and policy.

That’s right.
Sharma: Did you deal at all with the political situation of politics?

Cohen: Absolutely.

Sharma: You did. Okay. Can you describe that?

Cohen: You have to understand the politics. It certainly became apparent to me when I was at HHS but much, much more apparent when I worked on the Hill is you can’t look at the policy considerations in isolation from the political considerations. They go hand in hand together. And if you look at one and not the other, you’re probably not likely to succeed very well.

Sharma: Were there certain instances that made you believe this?

Cohen: Well, here’s an example. I can give you an example. The Reagan program enacted some reductions in welfare expenditures. Aid to Families with Dependent Children. At HHS we were working on proposals. The Congress had enacted some. We were working on some new proposals, say in 1983, and to the extent I was working on them I was looking at them from the perspective of policy analysis and trying to give the best policy analysis I could and I think that was the motivation of many of my colleagues. Keep in mind, as I said a moment ago, that the Reagan Administration has successfully gotten enacted quite a few proposals to reduce expenditures one way or another in AFDC and in the Food Stamp program or whatever. So I arrived in my new job and there was some interest by the minority staff director of the budget committee to see if we could put forward perhaps a really big deficit reduction program. And so we needed as much savings as we could and I was asked to look at what kind of savings we could get in income security policies and specifically in AFDC and food stamps. I set about this, to do this in a very policy analysis way. That’s the way I was trained. And it turns out that a view had moved across the Congress that AFDC and food stamps had been hit enough already by the proposals that had been enacted and therefore we weren’t going to do any more cuts—many people, liberals and others who cared about these programs, did not want any additional cuts made. And I didn’t quite understand that when I first got there. I didn’t understand what did it mean that the mood of the Congress is this. But after some time there, not too long, I began to understand quickly what that is, and that is that policy issues can often come to a point where, in the Congress there’s a consensus—not a consensus but policy issues can come to a point where a lot of members of Congress who were focusing on an issue or leaders in Congress who were focusing on that particular issue felt that something needed to be done or something should not be done and that that carried an enormous amount of weight. And you were swimming upstream if you said that, “Well, I think that..."
there should be more reductions in AFDC or more reductions in food stamps.” Regardless of what the proposals were, people said, “We’ve done enough.” And so there’s a case where the politics completely trumped the policy. So that was one of my learning experiences there.

Sharma: Interesting.

Cohen: I didn’t understand that before I got to the Congress but I understood it quickly enough after I got there.

Sharma: Interested in your thoughts on the political atmosphere and also the policy atmosphere in the wake of the first Reagan tax cuts, the 1981 ERTA and this growing concern about the deficit that seem to be a growing concern on both sides of the aisle.

Cohen: That’s right.

Sharma: First of all, I’d like to get your thoughts on how you saw that, what you attribute that to, especially in context of where we are today where we still have large deficits but it doesn’t seem as if, at least in the Republican Party, much of a concern with addressing them through tax increases.

Cohen: Well, I think that politically the size of the deficit was a huge issue to both parties, as you’ve indicated. Again, because we were looking at deficits in the $200 billion a year range, whereas I mentioned earlier Jimmy Carter had a deficit of fifteen billion and that was considered way too high. So it wasn’t much of a leap for members of Congress on both parties to want to do something to reduce the deficit. So the issue became how are you going to reduce the deficit? And there is where the orientations of each party came into play and they were different. In the Republican Party they wanted to reduce spending. They definitely did not want to raise taxes at all or very much and they wanted to protect defense spending, which had just gotten a huge boost during the early Reagan years. Democrats wanted to protect important domestic programs that they were concerned about and they were willing to reduce defense expenditures some, which they considered too high after the Reagan increases and they were willing to look at tax increases, because if you didn’t do that then the budgetary ax would swing more heavily on the spending side of the budget. So I think the issue was how you reduce the deficit and if you think about it, to some extent those parameters still hold today, hold true today. By the way, when I say domestic spending, of course, I’m thinking of both entitlement spending and also discretionary spending. And if you look at things as they’ve been since then, since 1983, Republicans, most, have generally been against any tax increases to reduce the deficit and
they wanted to protect defense. And Democrats, there are groups of programs or particular programs, domestic programs that they wanted to protect and so therein lies the Congressional battle.

Sharma: Okay. I’d be interested in getting some specific insight into these early 1980s battles, early and mid-1980 battles over the budget.

Cohen: Right.

Sharma: There was a series of tax increases beginning in 1982.

Cohen: Right.


Cohen: Right. That happened before I got to the Congress, okay, and it happened because the size of the deficits, potential deficits, were viewed as huge and this was terrible public policy. And so there were tax increases enacted in TEFRA in 1982 and so the interesting thing—and I think Senator Dole helped to lead getting that enacted. I think he was the chairman of the finance committee at that time. So there was a bipartisan basis for action. But those numbers already were factored in to the estimates we had in 1983. Also, remember that we hit a recession in ’82 and recessions always drive up deficits. So when the forecasts were made for ’83 and beyond, they were gargantuan, even though TEFRA had already been enacted. And so I was not involved in the debate on TEFRA but what I can say is that when I got there in ’83 we had a big problem even though TEFRA had already been enacted.

Sharma: And this was a result of the recession and the—

Cohen: Well, the main cause was the tax cuts, the Reagan tax cuts that had been enacted and the big increases in defense spending. President Reagan always said that he got snookered and that he was promised three dollars of domestic cuts for every dollar of tax increase and he didn’t get it. Again, I wasn’t there so I can’t evaluate that. But the defense and the tax cuts clearly were the major cause and when you added the recession in it looked terrible.

Sharma: I see.
Cohen: But if I’m not mistaken, it was not going to look good even if there wasn’t a recession. Even if you factored out the recession, we’re still looking at deficits that were very high leading on into the future.

Sharma: Do you remember any people who didn’t worry too much about the deficit? The burgeoning deficit? Or at least on the Democratic side? Or was it pretty much a unanimous feeling that something needed to be done to get those under control?

Cohen: Oh, I think there were people who didn’t care about the deficit but wanted to make sure social security and Medicare and other key domestic programs were taken care of. I think that there were members in the Senate and House who had individual areas that they worked on in their committees and they wanted to make sure those were not cut too much or cut at all. And so I don’t have any specific names but I think there were clearly people who didn’t care about the deficit who cared mostly about the policy involved and the programs that they were acquainted with or worked on or in their committees. So that’s not to say that everybody who was a chairman of a committee didn’t care about the deficit. I certainly wouldn’t want to leave that impression.

Sharma: Right. I see what you mean.

Cohen: Right.

Sharma: One of our most recent interviewees proposed that the 1980s were interesting politically because the Democrats saw the growing deficits under Reagan as really one of the only areas that they could productively criticize Reagan. It was the only things they could gain some traction on politically. And it sort of marked something as a shift. Whereas traditionally the Republicans had been the party to make budget balance a political issue, in the eighties the Democrats really seized the issue of budget balance.

Cohen: Oh, I think there’s a lot of truth to that. Clearly if Reagan had deficits that were very high, it stood on its head the notion that Republicans were generally very concerned about budget, high budget deficits. And so I think that that switch did occur because, as I just said—you know, a lot of the Republicans in Congress tried to follow President Reagan’s lead. There was concern about the deficit. So there were plenty of Republicans that wanted the deficit reduced. But at the same time, the leader of the party, President Reagan, was someone who had—because he was the one proposing big deficits, because that’s what was forecast, he was associated with big deficits. Again, those big deficits were being forecast at that point. The Congressional Budget Office,
which is non-partisan, had projected huge deficits beginning in ’83. At the start of ’83, that’s what they projected. And so I think that probably is the case. I don’t remember exactly but Democrats were quite content to raise issues, serious concerns with Reagan’s fiscal policy. And so I don’t remember, to be honest, whether you could say, well, somebody said, “Gee, here’s a chance to get Reagan and let’s use what we have at our disposal,” which is the high deficits. I don’t remember any talk like that but that doesn’t mean that there wasn’t any such.

Sharma: Okay. Were you involved at all in the 1983 Greenspan commission?

Cohen: No. I got there after the commission had already issued its reports. I was Senator Chiles’ expert on social security because that’s part of the income security function. The House had already passed a bill when I got here. The Senate took up the bill and I staffed Senator Chiles on that bill on the floor. But the Greenspan commission work had already been done. Now, there were still changes that were made after that and then there had to be a conference between the House and Senate. So I got in on the tail end of it.

Sharma: Okay. Do you remember any specific points of disagreement there or anything that you think might be interesting to say about that, what came out of that conference?

Cohen: Well, I think one of the most important things of that conference, with respect to the budget, is that there was a move and it was agreed to in the conference report to sort of try to take social security off budget. I think the House had stuff in there. Of taking it off budget relatively quickly and the other chamber didn’t. And in conference they still kept it taking it off budget but they just pushed the date back some. I think it was pushed back from ’88 to ’92. 1988. So that was a huge budget issue which came up in the context of the work on the social security bill.

Sharma: Certainly, right. I’m familiar with a debate that happened in the early 1990s, a bill pushed by Daniel Patrick Moynihan to take social security out of the accounting figure for the federal budget.

Cohen: Right. And we did that. Legally we took it out I think as part of the 1990 budget summit agreement, if I’m remembering correctly. But there were efforts previous to do that to do it but without writing it into statute. And so there was certainly very considerable interest in doing that, strong interest in doing that back in ’83.
I see. Let me get your thoughts on the Gramm-Rudman-Hollings legislation of 1985. Was that something that you and others in Congress saw coming and how did you respond to that?

Well, first of all, I worked extensively on the Gramm-Rudman-Hollings legislation and the mood for it came into place very quickly. We had been working on the ’85 budget resolution and Senator Gorton, a Republican from Washington and some others were dissatisfied with what seemed to be the status quo there. And if I’m remembering correctly, this is the year with the “oak tree agreement” between President Reagan and Tip O’Neill. And the oak tree agreement, as we understand it, was that President Reagan wouldn’t touch social security if Democrats didn’t have any tax increases. Let’s see. In ’85 the Senate did pass a budget resolution that had quite a few cuts in it. It froze social security COLAs for a year. But then came the Oak Tree Agreement. So the bottom line was that there’s a perception in the Congress that we weren’t making any progress on reducing the deficit. So that this sprung up during the August recess, I believe, of 1985. Certain senators got together and said, “We got to do something here.” Senator Gramm and Senator Rudman, obviously. Senator Hollings I think was involved. On the Democratic side I remember John Kerry, Senator Kerry was involved in this. Some of the work went on during the August recess that year and when we returned from the August recess there was already a huge movement to do something. We had to raise the debt ceiling and so the notion generally was that if we were going to raise the debt ceiling we had to do something really substantive on getting federal deficits down. And we worked on that for the remainder of that calendar year. I don’t remember when, but I think in November is when we passed Gramm-Rudman I, Gramm-Rudman number one. By the way, with Gramm-Rudman if you did not meet the deficit requirements, you would get automatic spending cuts. There were no automatic tax increases as part of that. I think that there were many Democrats who were very concerned about automatic spending cuts on domestic programs, although I should add defense, too, would have been subject to that and there were people who were pro-defense who were worried about the impact on the defense budget. So I think that there was certainly opposition to the Gramm-Rudman-Hollings movement but it had a lot of political force behind it and eventually something was enacted in November which actually isn’t that long a time after the August recess. But it seemed like a long time. But there was intense legislative activity with respect to Gramm-Rudman-Hollings between August and November.

And it seemed like a long time because the specifics of the bill were getting worked out?

Absolutely.
Sharma: And what do you remember as being the major points of disagreement within those provisions?

Cohen: Well, I think one issue was how much defense was going to get cut in relation to domestic spending.

Sharma: Yeah. This was one of the questions that I had. The famous thing is that it was a one to one discretionary and then defense cut and that sort of hurt the Reagan Administration, among others.

Cohen: Right. Equal reductions in defense and non-defense discretionary spending. The Reagan Administration was really opposed to that. They did not want to put defense on the table like that.

Sharma: And so how did that specific ratio come about? Was this just a—

Cohen: I don’t remember exactly but I got to say it takes the simplest thing. What’s equality? One versus one. I think that that was it. And the Greenspan commission had had one dollar of revenues for every dollar of spending cuts in social security. So I don’t think it was anything more profound than that.

Sharma: And how did you envision the actual process, the budget process playing out under Gramm-Rudman-Hollings. One thing is to have these deficit reduction targets but another is to actually go through with the sequester. Did you harbor—I don’t want to say harbor any illusions but did you think that Congress would abide by the deficit reduction limits?

Cohen: Yeah. Well, they were either going to abide by it or they were going to suffer the consequences of the sequester.

Sharma: I should rephrase it and say did you think that they would figure out ways to maneuver around the sequester?

Cohen: Oh, I think from the outset people were looking for ways to maneuver around it. I think that was one of the problems with it. I think that from the outset people were looking at that and as we got closer to any calculation of whether there would be a sequester and how much it would be, I think that people were looking for ways to evade it. So does that answer your question?

Sharma: Yeah. No, it does.
Cohen: Okay.

Sharma: I’m interested in as much detail as you can give. If you remember specific people or instances.

Cohen: Well, let’s back up a second. Gramm-Rudman I was declared unconstitutional and the reason it was unconstitutional was that you couldn’t have the Congressional—GAO, which was a congressional agency, making a calculation that determined what OMB was going to do. That’s unconstitutional. So we had to change up and figure out a way to see if we could have something that was like Gramm-Rudman that was constitutional. The OMB, in the president’s budget and mid-session review, had every year to be estimating what deficits were going to be. And around this time it became clear that OMB was using what we call a rosy scenario, which is they were using economic and technical assumptions that made the deficit look smaller. And I remember there was a controversy about certain agriculture payments, whether they were counted or not as part of the deficit, or the deficit for a particular year. So that was one that I remember. Economic assumptions were clearly at issue. OMB’s economic assumptions were rosier than CBO’s figures. So those are some of the things that there was controversy about. Now, is this a good time to talk about Gramm-Rudman II or do you want to—

Sharma: Yes, please. By all means. I think you should take the conversation in the direction that you feel is best because you’re the expert.

Cohen: When Gramm-Rudman I was declared unconstitutional, of course that sent shockwaves through the Congress and people tried to figure out ways in which they could change the law so that it would be constitutional. And I’m going to toot my own horn here in this process. But some people thought, well, let’s make GAO a Presidential agency instead of a Congressional agency. That didn’t get too far. But that was initially what some people suggested. I think Senator Gramm suggested that. And I came up with a different idea. And the idea was this. That for the most part, we were interested in deficits in the upcoming fiscal year and maybe a year later. People who were realists sort of figured that Gramm-Rudman was not going to be used for deficits in years beyond the first two years, let’s say—by that time a lot would change and that it didn’t really matter for us to try to forecast two years earlier what was going to happen. So with an interest in looking at the deficits for the next year or two, we could identify, as I just started to do, the various areas where OMB was likely to use rosy scenarios. And so my idea was we know what we want here. We don’t want them to do X, Y, or Z. We want them to do A, B and C. And so let’s write that into the Gramm-
Rudman law and that’s what we did. We wrote in the parameters. We looked at the areas where OMB had been fudging and we wrote in and said, “When you’re doing your estimate here, you have to use A, B and C. You have no choice about that.” And that worked.

Now, I believe you’ll have to check on this, that the Senate looked at this in 1986, calendar 1986. That the Supreme Court ruling came in sometime in 1986 and people were set about to looking at it immediately. Senator Chiles, working with Senator Rudman and others, put forward the proposal that I just described to you and it carried the day in the Senate. It was enacted, if I’m not mistaken, by a vote of sixty-two to thirty-six, or something along those lines. And the House didn’t take it up immediately and when they did take it up in the fall of ’86, they took it up in the middle of the night one night, I believe, and they voted it down. I don’t remember the score on it. But the Democratic leadership, for whatever reasons, they concluded that they didn’t want to go that route, and so in ’86, then, we didn’t enact any rewrite of Gramm-Rudman but people in ’87 began to feel we needed it and they looked to a significant extent, not entirely I think, to the model that was in the Senate passed bill and they put in enacting specific economic and technical assumptions into the law. Again, we recognize that you can’t be forecasting the economy that accurately two years out or more but I think most people felt that if we could get Gramm-Rudman working for two years, that that would be a terrific thing and not to worry about the later years. You would enact a multi-year deficit reduction package in one or both of those years. If you did that, that would be sufficient to deal with the deficit. You didn’t have to worry about enacting legislation three, four or five years later.

So from my perspective, it seemed like what I had suggested and which was part of the Senate passed bill became part of the basis for what was enacted Gramm-Rudman-Hollings II. Now, it’s possible others could say what I suggested was less important, but that’s the way I see it. So using that idea, there was still a period of intense negotiations between the House and Senate and we ended up enacting Gramm-Rudman II. I don’t remember this precisely but I think that the President signed that into law in early September. And I remember that he was dead set against it. He said, “I see this as bitter bile.” I remember that very clearly. But he didn’t sign it, he just didn’t veto it. And as you know, unless the President vetoes it, it becomes the law. So he let it become enacted into law without vetoing it.

Sharma: That’s a very interesting political dance that the Reagan Administration tried to do with regards to Gramm-Rudman-Hollings, right? I mean because on the one hand they were opposed but on the other they didn’t want to come out too publicly against an effort to deal with the deficit.
Cohen: That’s right. That’s right. Anyway, we enacted that, as again, I think in early or mid-September or whatever. And then Gramm-Rudman was supposed to kick in for the upcoming fiscal year and the sequestration would be ordered. I don’t remember the dates. Sometime late in the year or early the following year or whatever. And there was no movement to reducing the deficit and that meant that these cuts were going to go into place. And as we discussed before, defense would get 50 percent of the cuts. And these were not trivial cuts. And those of us on the Hill working on this stuff kind of held our breaths to see if a sequester was ordered would President Reagan—of defense, especially—would President Reagan go along with it? Would he violate the law? We knew this was “bitter bile” to him. And I think we were all waiting with bated breath to see what would happen. But a funny thing happened on the way to the forum and that is in mid-October, or maybe October 17th, I don’t remember the exact date, the stock market crashed by 500 points. The President said in response to that that we needed to do something about the deficit and as soon as he said that, Democratic members of the Senate raced down to the Senate floor to thank him for that and to lock it in, if you will. So the notion there was that the stock market drop had accomplished what we weren’t sure the President would do with the Gramm-Rudman law and a sequester, but that the drop in the stock market beat everybody to the punch. And quickly it was said there ought to be a summit of Congressional leaders and administration leaders to work on this. And so everybody went into this with a lot of optimism. The problem was that President Reagan’s people, on his behalf, still basically did not want any tax increases of significance. So the overall size of the package, therefore, wasn’t that big. I’m remembering something like $50 billion. I don’t know if that was over one year or two years or whatever. But certainly relatively small relative to the size of the problem. As I said, the negotiators on behalf of the President, Jim Baker and Jim Miller, they didn’t want to see very much in the way of tax increases there. They were being told that that was their position by the President.

So we didn’t get that big a deficit reduction package out of it. I don’t remember. Maybe it was enough to turn off Gramm-Rudman. I don’t remember. But Gramm-Rudman was no longer, for the upcoming fiscal year or the year we were already in, was not an issue and so we didn’t get the big deficit reduction package that we needed. My own view is that it was unfortunate about the stock market crash generating this rush to do something on the deficit because what it got done was not that big and I thought we had a test coming up, a real test with President Reagan. Was he going to allow sequester of defense spending to go into effect. And we never had to cross that bridge. We never had to cross that bridge. So Gramm-Rudman, at the moment of its greatest potential impact, was not an issue because we had a summit meeting and discussed deficit reduction. But whatever we discussed, we weren’t going to make any significant—not heavy cuts in defense expenditures and very little in tax increases. I’m going to stop speaking here and ask you how you want to proceed.
Sharma: Well, it didn’t go into effect, the sequester didn’t go into effect then, but it did go into effect in the years of the George H.W. Bush Administration leading up to the ninety—and the threat of the large sequester of 1990.

Cohen: Right, that’s right. Right.

Sharma: Leading up to that big summit at Andrews Air Force Base.

Cohen: We had a small summit, a mini-summit, if you want to call it that, for fiscal year ’89. Or maybe it’s for fiscal year ’90. But after President Bush was elected—

Sharma: So it must have been fiscal year ’90.

Cohen: Yeah. Fiscal year ’90. That’s right. Dick Darman was the OMB director and he wanted to get a deficit reduction package. He was constrained in what he could do because the President had a no tax increases pledge at the convention. But he set up to have him meeting with the chair and ranking of the House and the Senate budget committees. So Senator Sasser was now the—let’s see, the Dems had a majority then, so he was—

Sharma: He was now the Senate budget—

Cohen: He was the chair of the Senate budget committee and I worked for him. So John Hilley was his staff director. And we had this summit meeting that went on six weeks or something like that, in which we met virtually every day. I was in those meetings. We put together sort of a modest sized package. I just don’t remember whether it was designed to turn off the Gramm-Rudman-Hollings sequester or not. But it must have been because we never had any Gramm-Rudman-Hollings sequester for fiscal year ’90. But what happened, as I recall, was that by the time we got to the early part of next year, the deficit situation had deteriorated terribly. OMB and everybody else was forecasting huge deficits. The sequester would have been not feasible then. It wouldn’t have been remotely near enough to reduce the deficit. So there was pressure on both the Democrats and Republicans that we got to do something. We started having meetings on this. We weren’t getting too far. The President was still withholding any tax increases. Then one fine day the President issued a written statement in which he said that we needed to do a comprehensive package and included in the list of things that we would address was increasing revenues.
Sharma: Yeah. So he’ll come with no conditions to the negotiation.

Cohen: That’s right. But he specifically was opening the door to revenue increases. And this was a huge victory for Democrats. I remember John Hilley and I celebrating this together. This was a huge victory. We fought long and hard on this and now we got it. And then that opened the way for a serious summit to start.

Sharma: Let me ask just a quick question.

Cohen: Yeah, right.

Sharma: A victory in the policy sense or a victory in the political sense?

Cohen: Well, I think both. Mostly in a policy sense but obviously the policy sense had political ramifications. No, I think it was mostly policy. That we felt we needed to do something serious on the deficit and we were held back by the fact there’s no new tax pledge. As a consequence of that, that changed when the President issued his written statement.

Sharma: I just think it’s fascinating from the perspective that as soon as he comes out with that no new taxes pledge, he’s taking one factor off the table. But at the same time, you have a stated concern with reducing the deficit on the part of the Bush Administration. And then I’m wondering to the extent to which Democrats in Congress felt that they can really back the President into a corner and make him renege on his no new taxes pledge through a focus on deficit reduction.

Cohen: Well, I think there was a lot of interest in backing him into a corner and having him renege and he did renege. I don’t know if people knew precisely how much the political reaction to this was going to be but it was overwhelming. And the media played pictures of him saying, “No new taxes. Make my day. No new taxes,” or whatever he said.

Sharma: “Read my lips.”

Cohen: “Read my lips.” Thank you. “Read my lips, no new taxes.” The press played that up dramatically, which they should have. He made a major thing about that at the convention and he was now reneging on it. That caused a split within the Republican party over that. Most Democrats were excited from a
policy basis of this but obviously it was a political thing, also, and it was going to hurt the President. Obviously, I’m sure, Democrats, most of them, liked to see that.

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02-00:00:00

Sharma: Okay, this is Patrick Sharma and Alan Cohen, tape two. So we’re going to pick up with the sort of last years of the George H.W. Bush Administration and then your transition into the Clinton Administration.

02-00:00:18

Cohen: Well, as I said in the earlier tape, we had this budget summit and this went on the rest of the spring and all summer. There were enormous amount of discussions and this and that, but we weren’t really getting anywhere. We weren’t reaching a compromise or reaching a deal. And at that point, then some people suggested we should take the discussions off campus and so they selected Andrews Air Force base as the site of that. There was room enough for members of Congress, other members of Congress and the Administration to stay overnight there, but not for the staff, so we had to commute each day back and forth. These were intense periods. I think a lot was hammered out. There were a lot of compromises reached and things that were done during that period but we were there two weeks, ten days, two weeks, something like that, and by the end of that period we still hadn’t reached a final agreement. It was decided that they couldn’t stay away from the Hill any longer, that they had to go back, so decided to have discussions continued back on the Hill.

Eventually a deal was reached and the deal had taxes in it. It was very specific, the deal was, because it had to be. First of all, we had to draft a deal. We had to draft a budget resolution that fit the parameters that we had in the agreement. And when that was done the House voted on it and the House voted it down the first time. Of course, that was a huge blow. But people recovered quickly and said, “Well, let’s see what we need to do to change it so we can get enough votes in the House.” And that was done and it passed, and then it passed the Senate. And now that we passed a budget resolution we had to go pass the implementing legislation to implement the various policy proposals that had been included. And that was done and done quickly. The implementing legislation was taken up in December and it passed both houses and became the law. That was considered to be a huge victory for everybody. When it finally passed, I had two specific concerns. One was that we were now slipping into a recession and that we had $50 billion of deficit reduction in the first year in the package and it seemed to me that that might be the wrong time to implement a $50 billion reduction in the deficit. I was not aware of much of anybody else who really was concerned about that and so the plan, which was agreed to in the deal, went forward and was enacted.
My other concern was that when I looked at the numbers, it wasn’t clear to me that, if you looked out to the fifth year, that deficits were going to be going down that much. They were going down but they would still be high. I was very worried about that. Again, that did not appear to be a concern that I heard anybody else articulate. Again, the package was passed as is or as was.

Now, after it was enacted, President Bush was still in office. So now we began to see what types of budget forecasts that he would make, but more importantly, what types the non-partisan CBO would make. And so I kept my eye on that fifth year, the total deficit in the fifth year and I watched CBO’s publications. Each new forecast showed a worse number out there for the deficit in the fifth year and after a couple or three of these new forecasts, the deficit out there looked like it was too high. I don’t remember the exact numbers. That therefore became the basis of a huge issue in the presidential campaign.

In the presidential campaign, at first President Clinton indicated that he was concerned about deficits but he also wanted to see his program for action put into place, his putting people first. Oh, I’m sorry. Ross Perot was running, as well. And Perot made a gigantic issue out of the deficit and he appeared to be getting political, as well as policy traction with it. And then he bowed out of the race in early July but then he got back in in September or whenever it was. So during July and August maybe there was less discussion of the deficit but when he got back in he went on TV and stuff. He had his charts. So he made the deficit a big issue and criticized candidate Clinton and, I’m sure, candidate Bush, President Bush for not doing enough on the deficit. So by the time the election took place, the deficit was a huge issue again.

Oh, I had moved from the budget committee to the Senate finance committee in early March of 1992. The finance committee had a position they called budget economist and I applied for that and I was given the position. So I worked with the Senate finance committee and Senator Bentsen, who was the chair, for the rest of that year, ’92. And then in November of ’92, after the President was elected, President Clinton, his first cabinet choice was to name Senator Lloyd Bentsen as his secretary of the Treasury. To cut to the chase, I was able to go with Secretary Bentsen to the Treasury Department. I became the senior advisor for budget and economics. That was a position created for me. They didn’t have such a position. Leon Panetta was named as the budget—excuse me, as the OMB director.

Right after the first of the year a meeting was called among the people who had been appointed to be the President’s economic advisors to discuss deficit reduction and what we needed to do. So I was working on this and I was in on this from the beginning. It was recommended to the President by his economic advisors that he do a serious deficit reduction package, that that was the number one aim. And that even if that meant he could do less on putting people first, that he had to do that. And it was mentioned that the bond market,
long term interest rates were high right now because they were anticipating big deficits in the future. There was a meeting in Little Rock in which all of the economic team was flown out quietly. Flown out quietly from Washington to Little Rock to meet with the President. And that was the principals and then staff members that were with them. And I was fortunate enough to be able to go to that. As the meeting began, or whatever, I think the economic advisors and budget advisors told him that he needed a big deficit reduction package. They also told him they couldn’t guarantee him that this was going to reduce long-term interest rates but that we had to try. Early on in the meeting, if I remember correctly, the President basically seemed to agree with that assessment. That became the basis for having to put together a budget/economic package whose primary goal was to reduce the deficit. But it also had goals for making room for as much of the President’s priorities as we could.

02-00:10:50 Sharma: Do you remember any dissenting voices among the staff or principals at that meeting with regards to the deficit reduction?

02-00:10:56 Cohen: Well, I don’t know when he first expressed it but Secretary Reich was concerned that we were putting too much emphasis on deficit reduction and not enough emphasis on investments and other things that the President had in putting people first. Right after the inauguration we began to meet as a group. I remember that there were battles on the one hand between Secretary Reich and he may have had some others who supported him on that, with a lot of the economists who said we’ve got to make deficit reduction a primary goal and we’ve got to get the deficit down. We’ve got to show we’re serious about that. So I definitely remember that as an issue. In the end, I think the President went in the direction of the economists and not with Secretary Reich.

02-00:11:58 Sharma: And Secretary Bentsen would have been one of those who was backing the deficit reduction?

02-00:12:01 Cohen: Absolutely. You bet. So we, as I said, began to meet. We’d had some meetings prior to the inauguration but after the inauguration we began to meet and we were meeting every day, sometimes twice a day, to try to put together a deficit reduction package, again, but still leaving room for key priorities of the President. This was an extremely intense period. We finally agreed on a plan, I don’t remember when, towards the end of January, early February or whatever. So this group put together a plan and then the next step is that it was decided we needed to have President Clinton go over the plan with us, which we did. So we started having daily and sometimes more than one meeting a day with him. I was so impressed that the President was involving himself on the details of this. It was amazing to me and I thought it was terrific and I also felt privileged to be at these meetings.
We worked hard for two weeks or whatever and then we came up with something that we all agreed on. And then the legislative people took some of the key elements of it to members of the Congress, Democratic members of Congress to see what they thought and it came back with a few changes that needed to be made. But it was not derailed. And then the President went on TV to announce it and we all held our breath. Of course, the Republicans criticized it greatly but the response that the Democrats had was, “Well, where’s your plan?” And we watched the news and how things were going over the next forty-eight hours. The plan, it had strong Democratic support and it did not lose that. It never had any Republican support, so we knew we weren’t going to get any of that. But we were interested in Democratic support and how the public reacted to it and I think that we were generally pleased with the reactions. Well, the President had to issue his budget. I guess he issued a preliminary budget document sometime in February and his final budget was in April. The preliminary budget laid out all of this stuff that we had worked on with the President. Then it came time, by that time, to get to the Congressional budget process, creating a budget resolution that would reflect what was in the President’s plan to try to get that adopted in the House and Senate. And from there on, the budget process was continuing. We worked very hard and this process went on until I think towards the end of July or whatever.

Eventually the plan was passed by one vote in the House and that last vote was Marjorie Margolies-Mezvinsky and she later lost her seat and she was the one who put it over the top. If she had voted against it, it would have lost. And in the Senate, it was a fifty/fifty tie with Vice President Gore breaking the tie. There was a very tense period for two or three days when Senator Bob Kerrey said that he hadn’t decided how he was going to vote and he was going to take a few days to figure it out. Basically all the other votes were spoken for. So if he was against it, then it would fail in the Senate. Once again, we held our breath and about two days into this, or whatever, he announced he was going to make an announcement and he announced that he was supporting it. So it passed the Senate by a vote of fifty-one to fifty, with Vice President Gore breaking the tie.

Sharma: Were you involved in any of the arm twisting or horse trading that it took to get that bill passed?

Cohen: I would say the answer to that is yes. I wasn’t the horse trader but I was involved in all of that stuff, or much of it, absolutely.

Sharma: Do you remember with regards to negotiating with Congressional Democrats, some of the issues that they were concerned about or things they wanted in exchange for their vote? And whether you or anyone else in the
Administration ever harbored any thoughts about getting any sort of Republican support for the budget.

Cohen: I don’t remember anyone thinking we were going to get any Republicans. In terms of what members of Congress were concerned about, there were a lot of specific cuts in entitlement programs and I’m sure some of those were—there were some Democrats who were opposed to some of those, so there had to be discussion and possible horse trading over that. The agreement did not include any reductions in social security and the Democrats were very happy that that was the case.

Sharma: I know Senator Kerrey, for instance, wanted the establishment of a commission to study entitlement reform in exchange for his vote.

Cohen: And did we have that, from the best of your recollection?

Sharma: Whether that went through?

Cohen: Yes.

Sharma: Yeah.

Cohen: Okay. That’s right. Senator DeConcini from Arizona had some questions about calculations about the debt and I remember working with his staff and him. I apologize. I don’t remember the exact thing we put in but we put something into the budget document reflecting what he wanted, a certain calculation made or whatever. It was related to the debt and maybe related to foreign holdings of the debt. I don’t remember precisely. But what I remember clearly is that this was needed to get his vote. I was asked to work on this and I did work on it. I worked directly with the Senator and his staff and I really wasn’t—well, I had some discussions with some of the career staff and others at Treasury about this, but from my point of view this had to get done. We needed his vote. This had to get done. What he was asking for wasn’t a big deal [in terms of it being objectionable to us]. I remember at some point some of my colleagues at Treasury were very annoyed at me for taking such a proactive move in favor of this. To me it was a no brainer. Every vote counted. We needed his vote. If this is what he wanted, it didn’t have any—to me it didn’t have any real deleterious side effects. Let’s do it. And so we did.

Sharma: And another question is in having these discussions and trying to sell the President’s plan, to what extent did you rely on the sort of Rubinomics
argument that a credible deficit reduction plan was needed in order to reduce long-term interest rates?

02-00:20:18
Cohen: Oh, that was the number one talking point.

02-00:20:19
Sharma: That was?

02-00:20:20
Cohen: Yes, absolutely.

02-00:20:21
Sharma: And did you feel comfortable?

02-00:20:22
Cohen: Yes.

02-00:20:22
Sharma: Because we’ve had discussions with academic economists and then people in the administration.

02-00:20:27
Cohen: Yeah.

02-00:20:27
Sharma: And it seems as if there was a general sense that deficit reduction was important to sort of calm the financial markets, but there was never a direct understanding of the link between the two.

02-00:20:41
Cohen: Well, the link was supposed to be to long term interest rates.

02-00:20:44
Sharma: And so you felt that way yourself?

02-00:20:46
Cohen: Absolutely. I was fully supportive of this. Absolutely. And I think that a good case was made. We also tried to look at what the effect of long term interest rates going up would be, how much that would increase people’s mortgages, stuff like that. So this was a big part of what we were doing.

02-00:21:03
Sharma: Okay, okay. And in your discussions with congressmen, did you encounter any questions or opposition to that view?

02-00:21:15
Cohen: I don’t remember any. I don’t remember any. Although I wasn’t necessarily the one dealing with members. I was dealing with Senator DeConcini but I don’t remember any questioning of that.
Okay. Well, let’s continue on this.

The Robert Reich concern was still there, that we’re putting too much emphasis on reducing the deficit and not enough emphasis on investing in people, putting people first, and that that was unfortunate. So there clearly were Democrats who were concerned about that. There was sort of view that we were being held hostage to what the bond market wanted and that was considered troubling to various people. But to me the linkage was there and it was evidenced when Secretary Bentsen went on TV sometime in, let’s say, February and discussed the proposals. We had the plan at that point and we were talking about an energy tax and he gave an indication that that was in the plan. It was going to be in the plan or whatever. The next day long term interest rates dropped. So we felt it was confirmation of our hypothesis. I think that people felt that we were successful in that regard, that we passed a plan and long term interest rates did drop and they dropped earlier than without enactment of the plan. They dropped when it first became apparent that we were going to try to do something serious.

Let’s continue on with the Clinton years.

Right.

So the difficult passage of the first budget sort of lays the groundwork for—this is the common view for the surpluses of the late 1990s in the sense that there was increased revenue and some controls on spending. I’m interested in your—

We had another agreement in ’97, a balanced budget agreement. Right.

Of course, of course. Right. But before we get to that there’s this period of intense partisanship. There’s the Clinton Administration struggles in the second year with health care reform.

Health care, right.

And leading to the mid-term defeats.

That’s right.

And the sort of Gingrich revolution.
Sharma: How did you at Treasury experience that? Did you and your colleagues, were you worried about it? How did you see the Administration’s fiscal policy changing as a result of that?

Cohen: As a result of the election?

Sharma: Yeah.

Cohen: Well, I was involved in these things. One concern was spoken by some on the outside, and maybe some on the inside, is whether now that the Republicans and the House had run on a contract with America and that they were going to try to get all of that passed in the first X number of days and the word sort of went around, “Is the President still relevant?” The outgrowth of those discussions was that we put together a middle class tax cut plan which we floated late in December before the Republicans were even in office. And so that was one way that the things were affected. But the Republicans decided that they were going to move their own big deficit reduction package. They wanted the budget balanced in six years or seven years, one of those, and so they put together a budget resolution that would accomplish that and it had deep cuts in Medicare and Medicaid, as well as some deep cuts in some other programs. And they completed a passage of it I think in late October or early November and they put the debt limit—we were going to be hitting the debt limit on November the 15th and they put in an increase in the debt limit in the bill and they dared the President to veto it because if he vetoed it then the debt limit wouldn’t go up and we would have default. And Secretary Rubin had been smart, as he always was, and much earlier he had gotten together the people at Treasury who were familiar with this issue and we met every day after that to figure out what were our options, what could we do, what couldn’t we do, whatever. And it turned out that the debt limit that had been enacted after some previous debt limit crises in the late eighties, there were some options enacted that the Treasury secretary could use that could help prolong the period before we absolutely had to have the debt limit increased. We told the Congress that we had these provisions. We didn’t want any surprise here. And so the President vetoed the big budget bill and there were not nearly the votes needed in the two chambers to override it. So we had no budget deal enacted and we had the debt limit not having been increased. And therein we had an unbelievably intense period from the rest of November, December, January. We used every option that we had at our disposal.

Meanwhile, separately, the government had been shut down for four weeks, or part of the government had been shutdown. So in order to talk about the
shutdown, I need to go back to something earlier in the year, something I’m very proud of. So I get a chance to toot my own horn again here.

I think it was in March or somewhere along the line or maybe April or something like that. And Secretary Rubin called me into his office. I’m sorry, he called me on the phone on a Sunday and he said, “Alan, is there any way that we could construct our own deficit reduction plan? Not cut Medicare and Medicaid as deeply as the Republicans want and have some other modest proposals in it?” And I said, “I don’t know. I’ll go to work on that.” So I went to work on it later that day and I tried two things. I said let’s extend the time it takes for us to get the budget balanced from seven years to ten or eleven years. Or it may have been six years. Six years to ten or eleven years. And secondly we would use OMB’s economic assumptions, which were a little more optimistic than the Congressional Budget Office assumptions but had not been criticized as being unduly rosy. And I plugged those numbers in or whatever and lo and behold came out with that we could do a plan if we had relatively small cuts in Medicare and Medicaid. And I had talked to our health people and they said, “Oh, yeah, we can go along with X, Y and Z, and it’ll save this much. So I put X, Y, and Z into the thing and it balanced within ten or eleven years. And then I refined that spreadsheet. It was not a complicated spreadsheet. I brought it down to Secretary Rubin early Monday afternoon and I went in to see him and I said, “You asked for a plan and here’s the plan. And guess what? If we do A and B, we make this ten years or eleven years and if we use OMB assumptions we can balance the budget without having to have deep cuts in Medicare and Medicaid.” He took one look at it. He said to me, “Alan, this is exactly what I needed.” He was going over to a meeting at the White House or something like that.

I believe what happened is as follows. I don’t have direct confirmation of this but I’m fairly sure that it happened this way. Secretary Rubin took this spreadsheet and he showed it to the President and the President grabbed on to it and said, “This is terrific.” The President’s view has been that you can’t beat something with nothing. So if the Republicans have a deficit reduction plan, we’re not going to be able to stop that unless we have a deficit reduction plan of our own. So he grabbed on to this and then that became the basis for the plan that the President announced publicly in June. I was not part of the meetings where they worked on the details but I had set the framework here.

Basically when it became apparent that the President was going to put forward his own plan, Democrats were very upset. They thought, “The President’s screwing this up. We’ve gotten good traction by saying the Republican plan hurt Medicare and Medicaid and some other things and we should continue on that course. Instead of that, the President’s going to put forward his own plan and it’s going to undercut our opposition to their plan.”

Sharma: Take the issue from them.
That’s right. Many Democrats were very upset about this. The Republicans were laughing about it. They agreed with the Democrats. They thought, “The President’s doing well on his attack on the Medicare and Medicaid cuts and here’s Clinton who’s going to lose all the value of that politically.” The President nonetheless went forward and there was a lot of opposition, like I just said, immediately. But as time wore on, there grew to be acceptance among Democrats of what was in the President’s plan. Again, remember, it didn’t have deep cuts in Medicare and Medicaid. The Administration had and Democrats had a plan which we could say if the Republicans said, “Well, where’s your plan?” we’d say, “Here it is. We don’t like your plan, the Republican plan, because it cuts too deeply in Medicare and Medicaid, energy and the environment and our plan doesn’t do that.” In the end, the President was completely right. This is how we won the battle. We had our plan and instead of being able to just criticize their plan we had something to show in contrast to it.

Now, then, right around the time of November 15th, also the shutdown occurred. First it occurred for most agencies. Then there was some appropriations bills passed. So there were about seven or eight appropriations bills that had not been passed and the Republicans said they were not going to agree to send another bill to get them open or to give them money unless the President sort of went along with their budget proposal. There was a lot of back and forth about the two proposals or whatever and the President stuck to his guns and he didn’t cave in to what the Republicans wanted. But then that meant the government was not open. You’re allowed to keep open the things that protect public safety or whatever.

The essential services.

Essential services, right. So basically, initially there wasn’t that much impact of the shutdown. But as time wore on for three or four weeks, there began to be more and more impact. The public was against the Republicans. They blamed the Republicans for this. And at some point the Republicans felt they had to open the government again, so they did. This was all going on at exactly the same time as the debt limit crisis that I was discussing earlier. On that one, we got towards the end of January, as I recall, and we ran out of things that we could do and so we looked at it and we could not guarantee that February social security checks were going to go out unless there was a debt ceiling increase. This completely spooked the Republicans, as it should have. We quickly passed something, done in a way so it guaranteed that social security payments would be made in February. And as we moved toward the end of February, or whatever, the Republicans decided—they had already given up on the shutdown of the government and they basically said, “We’re not going to make an issue of this now. We’re going to make it an issue for
the election in 1996.” We were in 1996. “We’re going to take this case to the public.” Then they passed an increase in the debt limit.

So we survived all that time without increasing it, for which Rubin drew great praise, but some attack from some quarters. And there was one time in January where there was an orchestrated thing among several House Republican leaders suggesting that we should impeach Rubin. I made the crack at that time that he would be the only person ever impeached for doing his job. But he didn’t care. It rolled right off his back. I remember mentioning to him, or somebody mentioned to him. He didn’t care that they were talking about impeaching him. He was not worried about the publicity or whatever.

Anyway, then the issue was taken to the country in the election. From what I could see, the Democrats, President Clinton, really succeeded with the strategy we had, which is to say we want to balance the budget, too, but we want to protect Medicare and Medicaid and—

02-00:35:41 Sharma: Education and the environment.

02-00:35:42 Cohen: Education and the environment. Of course, in the end, the President won reelection. So that brings us up to the next year.

02-00:35:51 Sharma: The ’97 budget agreement.

02-00:35:52 Cohen: Yeah. And as we moved into the beginning of ’97, we had a situation where we had the Democrat President and a Republican Congress. The voters had spoken. And so if we were going to do anything to reduce the deficit, we had to do it on a bipartisan basis.

Now, even then, as I recall, I don’t remember exactly, the economy was doing extremely well and revenues were rolling in way above estimates. So we were already doing nicely but we went and had a three, four month negotiation with the Republicans. One of the things that we got was the creation of the CHIP program and one of the things they got was some reduction in capital gains tax rates. We were told by our leaders that if we’re going to have a deal, we can’t get everything. If there’s going to be a compromise, they’ve got to get something, we’ve got to get something.

And so that’s what we did. There was deficit reduction, a lot of cuts in health care costs, in Medicare, I think, and that was agreed to and then enacted in 1997. And with those changes, it was projected the budget would be balanced five years. The first year was ’98, ’99, 2002. 2002 was the year for budget balance. But meanwhile, the revenues kept rolling in. The economy was doing great. So we actually balanced the budget in either ’97 or ’98. I don’t
remember which. And then with the revenues still continuing to roll in, we started to run surpluses. And those were the years we had budget surpluses, the first time since 1969.

02-00:37:39 Sharma: After the ’97 budget agreement, there were some early discussions between Clinton and Gingrich camps over reforming social security and Medicare. I’m sorry, no, I’m sorry. Reforming social security.

02-00:37:54 Cohen: I don’t know what discussions were between the President and Newt Gingrich but we formed a top secret taskforce to try to figure out what should be our stance on social security reform, what could we advocate, what we were against or whatever. It was a group of about fifteen people, mostly principals from the National Economic Council and their staffs and Steve Goss, who was from the Social Security Actuaries office. Anyway, we spent a long time trying to figure out what to do. We looked at all the options and I think, to the best of my recollection, what we concluded was that we had these surpluses now and that we ought to dedicate these surpluses to making Social Security more fiscally sound. That became encapsulated in the phrase from the President, “Save Social Security first.” So to answer your question, yes, I was involved in great detail in that. I do not know what happened between Newt Gingrich and the President. Some people have speculated on that. I’m not privy to any knowledge on that. I don’t know the answer to that. What I do know is it never came up in our task force’s discussions that we were going to have private accounts—there’s been some suggestion that we would have agreed to private accounts and that the President would have agreed to that if certain things had happened or whatever. We looked at private accounts in great detail. We rejected them. I don’t know of any particular point where there was a notion that the President’s going to pick this up and endorse it.

02-00:39:49 Sharma: Okay. Interesting. So the politics of disposing of the surplus. What did you make of Alan Greenspan’s emerging concern about a surplus?

02-00:40:00 Cohen: [following paragraph was rewritten in the editing process] I did not agree with it. We had plenty of debt still. On paper, it looked like after ten years we were going to be able to retire all the public debt. But it seemed to me, you know, let’s wait and see if that happens. And of course it didn’t happen for a number of reasons. Murphy’s law prevailed. Nonetheless, Chairman Greenspan used that argument as a basis for saying we could lower taxes. And of course, we did lower taxes. President Bush ran on the platform and we enacted it in 2001. And Chairman Greenspan’s support helped it to happen.

02-00:41:30 Sharma: So where did you go after the Clinton Treasury?
Cohen: I came back to the Senate to work on the Senate Finance Committee again. Senator Max Baucus was now the ranking member and I had two roles that I was going to play. One was to be sort of the expert on federal budget issues and the other was to be the chief of a very small social security team. And I started that in early 2001 and I’m still doing that today.

Sharma: Okay. And what do you remember about the debates over the first Bush tax cuts? Do you remember there being pretty much a consensus that this was something to do? Concerns about the long run fiscal impact of it?

Cohen: Oh, there were concerns all over the place about the long run fiscal impacts. There was a huge amount of opposition to the tax cuts, especially in 2003 and much in 2001. But once 2001 passed we hit another recession and so the budget numbers went south again. And we had already enacted the 2001 tax cuts. Some people said, “We were worried that something like this might happen and sure enough it did happen.” And that didn’t stop the President from proposing more tax cuts in 2003 and at that time it just seemed like this is crazy from a fiscal policy standpoint.

Sharma: One thing that we found really interesting is the various procedural changes that had accompanied forming the federal budget process.

Cohen: Right.

Sharma: Particularly the PAYGO. The expiration of PAYGO allowed those Bush tax cuts to go through, in a way. I’d be interested in your thoughts on PAYGO as a system of budgetary enforcement, whether you think this is a policy that makes a lot of sense or something that can always be superceded by Congress.

Cohen: Okay.

Sharma: My understanding is that PAYGO expired in 2002.

Cohen: Right.

Sharma: And so the first Bush tax cuts in 2001—

Meeker: That’s statutory as opposed to regulatory.
Cohen: That’s right, that’s right.

Sharma: And the first Bush tax cuts then were sort of backloaded so that they’d apply to the PAYGO rules in the first year but then—

Cohen: I see. Okay. I don’t think I agree with that.

Sharma: Okay. So I take that that PAYGO limits weren’t a major aspect of thinking about budgetary matters over the course of your career?

Cohen: PAYGO was important in the nineties. It got set up in the nineties. I think it had some deterrent effects. People were worried about having to pay for certain proposals. They were worried about what would happen if they didn’t pay for certain proposals or whatever. So I think that during the nineties PAYGO was important. I think it’s still important. As you know, we reenacted it, statutory PAYGO, last February. Not this previous February but the one before that. So I think PAYGO is important. But keep in mind, of course, it doesn’t reduce the deficit from where it is today. It just protects the deficit from getting worse. So it is not a be all and end all. But I think statutory PAYGO was important.

We also had legislative PAYGO. We certainly had legislative PAYGO for some of the years that we didn’t have mandatory PAYGO. I don’t remember whether we had legislative for all the years or not but legislative PAYGO was also important. It creates points of order against things that add to the deficit on the revenue side or on the mandatory spending side.

Sharma: What do you think about the Congressional budget process, based on your experience? Is it a functional process or is it dysfunctional? And if so, where are areas for reform?

Cohen: I think it’s a functional process. I think that it has worked much of the time. It provides a valuable blueprint for what legislation we do later in the year. It sets limits on allocations to committees, including a limit on what the appropriations committee gets. Reconciliation instructions are also very valuable. You can put deficit reduction in play. You put deficit reduction in play, you only need fifty-one votes to pass it instead of needing sixty. And that works just as it was intended, to make it easier to do deficit reduction. And it’s worked any number of times. A lot of these deficit reduction agreements were done through reconciliation instructions. So I think that it’s quite functional.
Some people have suggested that the Budget Resolution ought to have to be signed by the President before it becomes useful as a blueprint and I’m not sure whether I agree with that or not. But that concern has been raised.

Sharma: What needs to be signed by the President?

Cohen: The budget resolution. We’ve had plenty of times where the budget resolution has called for X, Y or Z, and the President has been opposed to X, Y or Z and once it starts moving towards the possibility of actual legislation, the President’s opposition may prove fatal. So the notion is why not get the President involved at the beginning of the process. But I think the process is very functional and the things that come out of it are very valuable. There’s a cap on what the appropriations committee can spend, cap on what other committees can spend, reconciliation instructions and the overall blueprint. So I recognize that it doesn’t work all the time and that there have been some years when we haven’t been able to get one adopted and that’s a problem. But I don’t think you should throw out the baby with the bathwater.

Sharma: I’d also like to get your thoughts on the changes in the political environment with regards to the budget over the last few decades. How do you see the political environment having changed, if at all? Have Republicans become more conservative, Democrats more liberal or have conservatives stayed the same?

Cohen: Well, I think things have become more partisan. In the Senate there was clearly more bipartisanship when I arrived here in 1983 than there is today and I think other people are very concerned about that, too. It’s not as easy to find a group in the center that can help create a bipartisan majority for something. The rhetoric is very heated. It was heated in ’83 but I think it’s more heated now. I guess that’s how I would answer your question.

Sharma: Okay. One of the things I think is that the Republican Party has become much more averse to tax increases in the wake of the 1992 election and this image of George H.W. Bush losing reelection because he went back on his pledge.

Cohen: Right. Right.

Sharma: Do you think that that’s a viable argument?

Cohen: No, I don’t think it’s a viable argument. The problem with President Bush is he said he wasn’t going to raise taxes, “Read my lips,” and then he changed
course on that. If you don’t take that position at the outset, if you leave the door open, then you haven't reneged on anything you’ve said.

Sharma: But as far as the Republican party has changed since then. Have you noticed the Republican Party becoming more averse to even considering tax increases?

Cohen: Yeah. And the reason is because many of the moderate Republicans are no longer here. Either they lost or they retired or whatever. And so each year it seems the number of Republican moderates dwindles and what’s left are therefore, on average, more conservative than what you had before. So I think in that sense yes.

Sharma: Okay. Do you want to ask some follow-up questions?

Meeker: I think I just may have one. My follow-up question actually goes back to the Gramm-Rudman-Hollings and particularly Gramm-Rudman-Hollings II of 1987. I really appreciated your account of some of the behind the scenes machinations that you were involved in to encourage the Reagan and then Bush OMB to not fudge the numbers as much as they maybe would have. There’s rather a debate among historians about the effectiveness of Gramm-Rudman-Hollings, or its ineffectiveness, but it is fact that at the end of the Reagan Presidency and before the early nineties recession, the deficit did start to go down a little bit. So I’m wondering if you would agree with the sense that some of the recommendations that you were a part of making about kind of legislating directions for the OMB about ways in which they can score things is one of the reasons that the deficit actually did start to go down in the late 1980s?

Cohen: You mean because OMB was using rosier assumptions?

Meeker: Well, no. Because OMB was forced by legislation to use the assumptions that were a part of Gramm-Rudman-Hollings II.

Cohen: Well, actually, those would make the deficit higher.

Meeker: They would have made the deficit higher.

Cohen: Right. In other words, they could not have such a rosy scenario. The rosy scenario meant that the deficit was lower in the scenario than it was in the real
world. So by enacting an antidote to that, then, deficits would be going up then.

Meeker: But wouldn’t the antidote have actually made the deficits go down in the real world since there was not a rosier scenario possible?

Cohen: Say that again?

Sharma: It would have forced Congress to address the issue more fundamentally?

Meeker: Yeah.

Cohen: Right, that’s right.

Meeker: And so therefore your prohibitions against the rosy scenarios would have, in fact, aided in reducing the deficit in the real world.

Cohen: Because it generated the climate for a deficit reduction package?

Meeker: Yeah. No?

Cohen: Right.

Meeker: Okay.

Cohen: Well, as I said, we never got to test the hypothesis in ’87. Eighty-eight was an election year. Then we had this little mini-summit in ’89 and then the big summit in ’90. Well, let’s see. Reagan was out of office at that point. So we did do something in the ’87 agreement but I don’t know that it was that big. So that did reduce the deficit. So in that sense—but we didn’t get a much bigger package and we didn’t have much in the way of revenues in that package for the reasons I indicated before. So in principle, that could have created a movement to do a lot more deficit reduction, but it didn’t. So in that sense, I’m not sure that the lower numbers are due to precluding a rosy scenario.

Meeker: So your overall assessment of GRH I and II would be mixed, it sounds.
No. As I say, in ’87, with the one that was now constitutional, we were within a period of a month where there might have been clear results showing that the thing worked. But the stock market crashed and we never got to see those results. And then in ’89 we did have another summit, a mini-summit—this was after Reagan. It was under President George H.W. Bush. We met with Darman. We got an agreement that did get some deficit reduction. And in ’90, you could sort of say that Gramm-Rudman worked. The projected deficits were so big that that meant that you had to get deficit reduction, otherwise Gramm-Rudman would kick in. If you didn’t have Gramm-Rudman, the political forces would have pushed for some agreement anyway. I guess I can’t answer that. But Gramm-Rudman, it had its value at that point, but it might not have been necessary because the deficits were so big that there was a consensus that we had to do something.

Okay. Well, I don’t have anything else but I was wondering if you have anything to add or anything you think that is important for historians to know about your career, about American budgeting during your career.

Well, let me think about that for a moment. I think I’ve covered what I want to say.

Okay. That’s good.

Good, terrific.

Thank you so much.

[End of Interview]