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Table of Contents—Christopher Edley

Interview 1: July 28, 2010

Audio File 1

Work as an advisor to Bill Clinton’s 1992 presidential campaign—Service as an economic policy advisor to the Clinton transition team—Edley’s focus on banking, housing, and savings and loan crisis—Thoughts about candidate Clinton’s economic agenda, particularly Putting People First—Dealing with “leftover” economic woes—Financial reform and creating economic growth through off-budget endeavors—Emergence of Clinton’s concern with budget deficits—Role of economic advisors from Robert Rubin to Robert Reich—Crafting the first Clinton budget—Alan Greenspan and the Federal Reserve—Economic growth, theories of stimulus, and the behavior of financial markets—Wall Street and the debt as a symbol of economic turmoil—More on Clinton’s first budget, including the tax increase—The fall of the Soviet Union and the “peace dividend”—Comparison of Carter’s and Clinton’s economic policies—The Council of Economic Advisors and the establishment of the National Economic Council—Accepting a position as Associate Director at the OMB
Today is the 28th of July 2010. This is Martin Meeker interviewing Christopher Edley for the Shorenstein Project on National Debt. Let’s start out today by talking about your role in the early part of the Clinton Administration and in the 1992 election. I know that you play the role of a senior advisor on his transition team but I don’t know the extent to which you participated in either the primary or the general election as an advisor to then Governor Clinton.

I pretty much sat out the ’92 election. I worked in the ’88 election as the National Issues Director for Dukakis. So although I had a lot of friends working in the Clinton campaign I sat it out and didn’t get seriously involved, so far as I recall, until a day or two after the election in November when Bob Reich called me from Little Rock to ask if I could come down as soon as possible to help with the transition.

So Bob Reich’s role was as basically the economic transition coordinator?

Right. He directed the economic transition policy transition. Economic policy transition. There were really three operations. There was the policy operation, there was the organizational transition and there was the personnel operation. And, of course, the inauguration off to the side, which is a huge managerial effort in itself. So Frank Raines was running the part of the administrative transition, so he oversaw the folks who went agency by agency and did briefing books for cabinet and sub-cabinet appointees. But Bob was in charge of the economic policy transition and he put together a group of about eight or so folks who were called senior advisors that included Bob Rubin and Larry Summers and Gene Sperling and a group of other folks.

And you were a part of this group?

Right.

What role did you play then as a senior advisor around economic policy?
Edley: The principle role was that at our first meeting we generated a long list of key topics that we thought needed to be addressed over the next several months, not just during the transition but in the start-up period of the Administration. This was a list essentially that Bob Reich and Bob Rubin developed together. And, of course, Gene Sperling who had been doing economic policy during the campaign. And we then sat around a table and went down the list and various people volunteered to take responsibility for different issues. And I was prepared to do anything but I got pushed into doing banking, housing, the S&L bailout crisis, the RTC, all those financial institution issues.

Meeker: Interesting. What were some of the other main issues that were on the table at that point in time?

Edley: Just bad luck on my part. Nobody else wanted it and I think Rubin said, “Let Edley do it. He’s smart.” Stimulus. There were one or two people who were focused on what kind of stimulus package was needed. Oh, boy. Besides the stimulus. There was some specific look at jobs and job creation. Thinking way back. I think somebody did trade. And I can’t remember what the rest of the list was.

Meeker: Do you recall if there was a focus specifically at that point of time on debt and deficits?

Edley: I know we talked about it a lot. I don’t know if anybody was particularly assigned responsibility for it, because it was in the context of we knew we’d have to put together a budget. So there was attention to the budget. I remember that. And it was in that context that the deficit reduction was going to be critical. But there was a stimulus. That’s right. I think there was a question of the budget and tax policy going forwards, because although we recognized that there would have to be a short term stimulus—Clinton had run, obviously, on a platform of deficit reduction, balancing the budget. So hence, ultimately, through reconciliation we went ahead with doing both the tax increases. That was on the drawing boards from the very beginning.

Meeker: Politicians have a tendency to promise a great deal during a general election, some of which is within the realm of possibility and some of which may not be within the realm of possibility. And Clinton’s economic policy was elaborated in this Putting People First Initiative, which was basically sort of a stimulus investment in domestic development of jobs and so forth. When Robert Reich called you and invited you to participate as a senior advisor,
what did you think of Clinton’s proposed economic policy from the vantage point of Clinton as a candidate?

Edley: Frankly, I wasn’t that impressed. It seemed to me a standard laundry list of initiatives without terribly much coherence to it. Having worked in the Carter Administration, the Carter White House, on jobs and welfare related issues, income maintenance issues, I probably had a sort of cynical view about the role that bite sized investment programs could play.

Meeker: When you say bite sized investment programs, can you define that?

Edley: Well, for example, the Empowerment Zones Initiative I thought was a total waste of money and argued unsuccessfully to not bother spending the billions on that. And certainly most of the job training programs. I just thought the numbers were too small to have a meaningful impact on either the economy or opportunity for individuals, as opposed to doing more thorough going reforms in education. But for myself, in the course of the transition, I tried to swim in my own lane as much as possible because trying to figure out what to do about the savings and loan bailout and how to deal with that was enough to keep me occupied.

Meeker: Well, I will want to ask you some broader questions about the economic policy as we go ahead.

Edley: Sure.

Meeker: But why don’t we pause here and ask you a little bit about the specific work that you did around housing and the S&L bailout. That was a huge, obviously, political as well as economic issue during the 1980s. What was left over in Clinton’s Administration to deal with?

Edley: Figuring out a way to pay for it and dealing with the Resolution Trust Corporation. And also thinking about more kind of banking reform legislation would be desirable. So we were ginning up some activity in that direction. I had worried more about the S&L crisis and what could be done about it during the ’88 campaign, that’s true. That’s when it was really a total puzzle. It was: “What in the world are we going to do?” It seemed like a crisis really was imminent and nobody had great ideas about what to do about it. So we struggled a lot with that during the Dukakis campaign. And the basic shape of the solution was in front of folks. We had to get some legislation through and
get it up and running in terms of actually resolving the difficulties with the balance sheets and the assets. And Roger Altman played an important role in that. He was Deputy Secretary of the Treasury for the first couple of years and he’s somebody you might want to talk to, as well. Deputy to Lloyd Bentsen. And then I had to figure out what to do with HUD and the housing budget. There was both a concern about the circumstances in the housing market in relation to the macro economy but I think more broadly coming out of a campaign, a concern with home ownership as an opportunity building strategy and what could be done to improve home ownership rates. Homelessness also a big issue. So that aspect of what we were doing in the transition was in part about cleaning up the mess. Right? The S&L crisis, etcetera. And then partly about trying to put in place some policy processes for long-term development, especially in terms of financial sector reform. [I’d add a mention here of the growing concern about defaults on FHA multifamily housing projects, and also our desire to tackle the problem of huge, dysfunctional inner city housing projects that were in receivership, or deserved to be. Chicago comes to mind.]

01-00:12:35

Meeker: Both of these are extremely interesting and important issues, meaning the financial sector reform, but also the extending of home ownership and trying to develop some federal policies that would enable that, especially looking down the road fifteen or twenty years. Do you recall what some of the initiatives that you were working on at that point in time, some of the policy proposals, perhaps, about attempting to regulate the financial sector so that such problems wouldn’t happen in the future? There’s the cliché that we build regulations to deal with the previous crisis.

01-00:13:16

Edley: Right. The last. Right, right. Exactly. No, I’m having trouble remembering the particulars. I remember we were paying a lot of attention to the issue of capital requirements, and, in particular, international agreements regarding capital requirements. But looking to the longer term, the buzzword was Glass-Steagall reform and what could we do about Glass-Steagall reform. And, again, this is something that I worried about during the ’88 campaign in the sense that the regulatory structure was not sufficiently competitive [from a global perspective]. In retrospect, I think mistakes were made, needless to say. But we did have a sense that the system of financial regulations simply wasn’t ready for the twenty-first century.

I think more generally thinking about the housing stuff that I was doing, as well as the S&L stuff and so forth, the relationship to the budget, the politics of the budget, was a real press to find ways to do things that were off budget--find ways to do things that would not have an impact, an adverse impact, on the deficit. So, for example, in stimulating home ownership the issue was how to use the GSEs, the government sponsored enterprises—Fannie Mae, Ginnie
Mae, Freddie Mac—to help serve that goal. And I think to some extent, in that concern for raising home ownership levels, you saw some of the seeds of the abuses that caught up with us in 2006, ’07 and ’08 because the pressure was to try to make mortgages available to a broader and broader group of folks and to do that in an off-budget way meant using the GSEs.

So you can blame it all on me. I just don’t understand why I’m not rich like the folks at Goldman Sachs. It doesn’t seem fair. Go ahead.

**Meeker:** Well, the interesting part here is the larger context about the approach that the Clinton Administration, incoming Clinton Administration, had toward budget and the notion that we want to expand home ownership but we don’t want it to impact the budget. Therefore we want to do it as an off budget approach. That, maybe in and of itself, is maybe the real culprit here.

**Edley:** Well, yes and no. I don’t know of anybody who believed that you could meaningfully move the needle in terms of home ownership rates with spending programs that would directly subsidize individual home owners. It was not possible to have a sufficiently targeted program, and large enough program, to have any kind of an impact. What was really needed was some form of intervention that would reshape the markets, in particular, the mortgage markets. So while we certainly had the low income housing credit, low income housing tax credit as a part of the investment strategy and the tax plan and so forth, and that is substantial, I think my view, and I think the general view, was that you’d get more oomph out of looking at the way in which mortgage markets functioned than by looking at direct spending programs. So I don’t want to present it so much as budget subterfuge being the goal as so much as it was a sense that you had to have markets pushing in the right direction to advance this goal as opposed to using government spending programs of some sort. So, in that sense, it’s almost a classic Republican formula as opposed to a more traditional spending approach familiar to Democrats.

**Meeker:** Neo-liberal formula, the way it would be described today.

**Edley:** Exactly. [Point I’d add here is that Henry Cisneros and I thought very firmly that FNMA and the others existed in part to serve an insurance and intermediation function that the private sector would not provide through private mortgage insurance – an entire business that was nonexistent a generation ago for ordinary families. Put differently, the implicit government guarantee gave the GSEs an edge in the market that should not be used to compete against private mortgage insurers for that part of the housing market that didn’t (any longer) require a government presence through GSEs.]
Meeker: So, actually, this question of budget in kind of a broader sense is really interesting. I’m thinking about some of the historical literature that has been generated around the Clinton Administration. And feel free to contest this interpretation, but there’s a sense that during the general election, the elimination of deficits and trying to create a balanced budget was less of an issue during the general election and instead he was really promoting the Putting People First agenda, investing in the United States. And now some people identify the arrival of Rubin as the beginning of Clinton’s foregrounding of balanced budgets, perhaps to the expense of stimulus initiatives. How do you feel about that interpretation?

Edley: No, I don’t think it’s accurate. I don’t think it’s fair to portray Bob [Rubin] as some kind of a Svengali who captured Clinton’s imagination. I think that Clinton came to the campaign and came to the Presidency as certainly a fiscal moderate, if not a fiscal conservative, but basically as someone who favored fiscal responsibility and thought, as is typical of governors, that balancing the budget was a very important thing to try to do. There was also this broader concern with the political positioning of the Democrat party and trying to kill, once and for all, this approbation around tax and spend strategies when, of course, part of the campaign focused on the fiscal profligacy of the twelve years of Republican Administration. So offering some kind of a contrast, demonstrating that the Democrats were indeed capable of governing in a way that would put our fiscal house in order and in that way serve long-term growth needs, that was not just a Rubin message.

People joked about Rubin’s focus on the long bond, meaning just viewing the Treasury long bond as an indicator of what the market thought about the fiscal discipline of the government and the long-term prospects for fiscal discipline and for growth. And that focus on the long bond, that sense that we need to get our fiscal house in order to have the solid foundation for the economy. There were some dissenting voices and Bob Reich could certainly speak to this. But I didn’t feel like that issue was really up for grabs. I really didn’t.

Meeker: So when you say that issue you mean the notion of valuing a balanced budget was not up for grabs?

Edley: Correct. Now, I’d hasten to add that people were not averse to raising revenues as part of the equation. In other words, the notion was a balanced strategy of increased revenues and reduced spending. And so there was a debate about what the mix should be and what the pace of deficit reduction should be. But the sense that in a few years we needed to get to a balanced budget, I don’t think there was a whole lot of disagreement.
So the debate would have not been about the value of getting to a balanced budget but was it a seven or a ten or a fourteen year horizon or something like that.

Well, was it a four or seven or ten horizon, or four or seven, I’d say. I don’t recall any particular conversations but I think the sense in the air was that we ought to be able to get to a balanced budget within a few years of recovering from the recession. So it ought to be a foreseeable accomplishment. You’re not kicking the can down the road but you wanted to be able to campaign for reelection. We really wanted to have it within sight for purposes of campaigning for reelection. And not having accomplished it necessarily but at least have it be within shooting distance, so to speak. [In thinking about the time horizon, you must bear in mind that the magnitude of the deficit problem was much smaller than what Washington faces today, and the politics were less polarized in the sense that there were conservative Democrats and moderate Republicans prepared to accept new revenues – even taxes – as part of a package. Today, the hole is a lot deeper and one team keeps trying to knock over the ladder.]

The ’92 election of course happens in the context of not a long but a fairly serious recession that some people say spelt the doom of Bush 41’s presidency. How did the recession figure into the economic policy as it was being developed?

There was a palpable sense that we had to move as quickly as possible to get out of the recession before it became Clinton’s recession rather than Bush’s recession. So the painful struggle was that you had a series of investment initiatives that had been promised during the campaign and yet this sense of urgency to show meaningful progress towards getting our fiscal house in order. There were several, but two in particular complications were that, just as Obama discovered, after a significant period of not having White House control, lo and behold you had a lot of Democrats on Capital Hill who had ideas about what they wanted to try to accomplish. And simply saluting and following the President, for some reason, they thought that’s not necessarily what they’d been elected to do. The second was that the structure of Gramm-Rudman-Hollings, the Balanced Budget Act, imposed caps on discretionary spending.

PAYGO.
And on the mandatory side it had a PAYGO discipline. And that’s not so bad. That’s fine. But the harder part, at least in my view, the harder part were the caps, the multiyear caps [on non-defense discretionary spending, or NDD].

There was a schedule of what the caps would be on appropriations, on discretionary spending for defense and then a separate one for domestic discretionary spending. Those caps meant that to the extent you wanted to deliver on the investment commitments that the President had made, you had to squeeze them under the caps or find a way to put them on the mandatory side of the budget through tax expenditures or entitlement programs of some sort. Or you had to find a way to raise revenues. So it was interesting. It was tough.

Well, and to add another level of complication to all of this. You have the Federal Reserve and a very powerful chair of the Federal Reserve, Alan Greenspan, who in Clinton’s memoirs, as well as many historical accounts, is mentioned as paying a visit down to Little Rock in early December of 1992. Really advocating for attention to Wall Street and the bond markets. Was that just yet another factor or did that substantially influence the conversation that was being had about economic policy?

Well, it certainly had some impact and you want to be able to coordinate policy with the Fed and don’t want to be at loggerheads with the Fed, pushing in different directions, pulling in different directions. But I think more than anything, it was Clinton’s conclusion that economic growth, which would produce job growth, would produce revenue growth, and would help grow our way out of the deficit. And in that sense, paying attention to advisors about what would be good for growth was sort of a natural thing to do. So I view this as less about individual pressures and lobbying and the persuasive power of personalities, and frankly, less about politics, than I view it as pragmatic economic policy judgments on Clinton’s part. That unless markets believed that national policy was going to be supportive of growth, then good things weren’t going to happen. So this notion of market confidence and expectations, and market confidence specifically in the policy directions of the Administration—my guess, I’ve never talked with him about it, but my guess is that that realization came to Clinton in a very powerful way through his conversations with Rubin and Greenspan and others. And others.

The emphasis on a pragmatic approach I think is fairly interesting—and above and beyond that the different opinions individuals that might have been represented. And that also runs against the historians and the economists’ tendency to also see these decisions that are made in the context of various economic theories that might be employed by various actors. And so during this period of time are you seeing any kind of operationalization of favorite
economic theories, especially after twelve years of so-called supply-side or perhaps Milton Friedman’s monetarism or something?

Edley: Well, I think it’s the Washington consensus, with one possible exception, which I’ll get to. I think there was an utter and total deep agreement that supply-side strategies were an utter failure and that that’s why we were in the mess that we were in, deficit-wise. And this notion, in other words, a rejection of the borrow-and-spend strategy for stimulating growth. [Although I think borrow-and-spend in the Keynesian sense has a purpose and legitimacy for getting out of a recession once you are in it – and I think everyone in the Clinton WH agreed that moving too fast to balance the budget would keep us stuck in the recession. That’s why the importance of an initial stimulus package, even though it created a short term increase in the deficit. The point is that we wanted a near-term deficit increase for stimulus, but a mid- to long-term plan for budget balance – again, think “long bond.” And it had to be convincing with respect to market/Wall Street expectations, or it wouldn’t have the desired stimulative effect coupled with moderate inflation.] And there was a sense that there was a relationship between interest rate policies and inflation, but it was very loose. So not the extreme monetarism of a Friedman school. But a moderated view of it. So interest rates were important but--.

I think what struck me as different about the way people thought about economic policy in the Clinton White House as compared with what I witnessed in the Carter White House was more sensitivity to the role of expectations and the impact on financial markets of expectations and the relationship of government policy direction to shaping those expectations. So sensitivity about that, which seemed to me to be far more heightened. So it’s almost a behavioralism that’s becoming a part of national economic policymaking that struck me as far more pronounced than I’d witnessed a dozen years earlier. And so economic policy messaging becomes a huge part of the enterprise.

Meeker: With the audience being Wall Street, in essence?

Edley: Exactly. And not just the general public. And, again, it’s not so much political. It’s that you want those forces, sort of those market forces, psychological forces, you want those trying to push things in the same direction that you’re trying to push. You don’t want them fighting with you. It’s about trying to harness them and get all the energy moving in the same direction. So I guess the concise way to put it would be that I believe, certainly my sense, and I think the shared sense of a lot of people there, was that deficit reduction was intrinsically important for economic health. But probably even more important was the effect that a policy of deficit reduction had on Wall Street perceptions
and then the behavior of Wall Street. So it would be overstating it to say that the deficit reduction was symbolic but I would say that the symbolism and the signaling had a multiplier effect on the pure economic effect in the real economy.

**Meeker:** Excellent. That’s extremely helpful and relevant because we’ve just been reading some work around the symbology of the deficit. So that really ties into that. I appreciate that. So obviously we’ve been talking a lot about spending. But the revenue side is a key element here of the development of Clinton’s economic policy and it stands in sharp contrast, of course, to the way in which Bush 41 was punished for breaking his no new taxes pledge and then also for the way in which the Republican party has profoundly internalized that punishment since then. So the notion that the Clinton economic team was willing to consider the revenue side of the equation, raising revenues in order to balance the budget and also to fund some of his domestic initiatives is remarkable. What were the conversations that were had amongst the policymakers, the advisors, about the broader implications, the political implications, if you will, of raising revenues? How were you going to do this in a way that didn’t engender a backlash?

**Edley:** Look, I think that everybody knew that there would be some backlash. In political terms, it’s a cost benefit analysis of whether you gain enough to take the risk. I’m projecting back on to it again. I don’t remember any particular conversations. But I imagine the conversation being that the politics of deficit reduction are more important than the politics of no new taxes for us as Democrats and for us with the mandate that we got in the election. So called mandate. After all, he didn’t get a majority of the vote. But you know what I mean. But clearly if you add Clinton’s vote to Perot’s vote, the idea of deficit reduction definitely commanded majority support. And that that was more important than no new taxes. So as long as you had a balanced approach, the economic theory would have been it’s hugely important and we can’t do all the things we promised to do. And the politics weren’t there to get deficit reduction exclusively with spending reductions. It would both betray his platform, but it’s simply inconsistent with the makeup of Congress. So I don’t recall a lot of debate about whether to search for new revenues. I think that with the PAYGO discipline combined with the desire to balance the budget, I don’t recall any serious discussion of options. Remember, we’ve seen twelve years of fiscal—okay, let me moderate my prose. You’ve seen twelve years frequently characterized by fiscal challenge, difficulty, because the emphasis was on reducing revenues rather than balancing the budget. And nobody was interested in repeating it. That’s why we came to Washington, was to undue that pattern.
Meeker: Well, to what extent during this transition period of time we’re broadly talking about were there specific considerations of ways in which revenues were going to be raised? In other words, what kind of taxes? What was the tax policy going to be?

Edley: I remember there were some discussions. Gore was interested in a carbon tax. We fooled around with that. There was no serious discussion about a VAT or a national sales tax or anything that dramatic. There were discussions about trying to close loopholes a bit.

Meeker: So was it mostly just around manipulation of tax rates?

Edley: I don’t recall anything dramatic. Anything that I would think of as a dramatic shift in tax policy. Slightly more progressivity with the rate structure, trying to trim some of the deductions and credits, particularly for firms. Some simplification. But I can’t recall any big ideas.

Meeker: Also, one of the other larger contextual issues that we haven’t mentioned yet thus far is this was the first general election and the first transition after the fall of the Soviet Union. That potential impact on spending, particularly around defense. Was there a sense among the transition team that there was going to be a substantial peace dividend that could be reaped post-1989?

Edley: There was by all of us who weren’t working on defense issues. Certainly somebody who was working on the domestic side of the budget. I was just dumbstruck by the difficulty of holding down the growth in defense spending and canceling weapons systems and all the rest of it. But there was significant evidence for the proposition that there’d been an erosion in our conventional strength and that we had a procurement agenda for refreshing weapons and developing new weapons systems that just needed attention. So there definitely were problems. [There was a big “readiness” scare, as I recall.] And some tension between the folks on the domestic side and the national security side, as there always is in budget issues. And in some respects, maybe the tension was a little bit less because we had separate spending caps in the budget act. Separate spending caps for defense discretionary spending and non-defense discretionary spending. So I sort of knew that even if we could gang up on my colleague who was overseeing the defense budget and pound a hundred billion dollars out of him, I knew that I wasn’t going to be able to spend it anyway because these were separate currencies for all intents and purposes.
Meeker: You wouldn’t spend it but it could have gone to deficit reduction.

Edley: It could have gone to deficit reduction, but then again, nobody thought that Congress would. Even if we could cut defense spending significantly in the President’s budget, nobody believed that Congress would do that. So in a way, I think within defense my sense was that the spending caps became floors, and that you then had the defense spending cap operating kind of as a guarantee. And then any additional money they needed managed to get funding as emergency supplemental appropriations above the cap, which, again, was just a total mystery to those of us on the other side. We didn’t understand why when you have this army, you’re spending $600 billion or whatever it is on this army, and then if you actually use them, you actually need an emergency appropriation. Well, what were we spending the $600 billion for? There’s a logic to it but it took some getting used to.

Meeker: Well, I imagine it also must have been rather shocking. Here you are developing a domestic economic policy agenda and post-Cold War there was a broad public expectation there would be some sort of peace dividend and then the defense department raises its hands and says, “Actually—“

Edley: Surprise! We have to be able to fight a conventional war on two fronts and we need to do this with the Navy and we need to do that with our tanks. It is pretty insatiable. And, again, in fairness, because I’ve learned quite a bit about these issues. In fairness, there are ways in which it costs more not to have a Cold War with mutually assured destruction. And there are ways in which it costs more if you’re the only super power. There are just lots more places either that want you or that you want to be. So I think part of the difficulty with the defense budget was that there was an uncertain reformulation of our foreign policy and our national security objectives and that when you didn’t have an economic discipline on our definition of mission and national purpose, it was pretty hard to have an economic discipline, a budget discipline on the Pentagon.

Meeker: I want to transition a little bit to your OMB work and I know that there’s probably just a fine line of division between the transition team and the OMB work, but I want to give Patrick an opportunity to ask a question first.

Sharma: Well, my only question really concerns your comparison between the Carter Administration and the Clinton Administration and how you say that the Clinton Administration was much more governed by a sense that what was important was the expectations of the markets and that had much more of an
influence on making economic policy. And I know between the two periods you were at Harvard and not necessarily paying so much attention to those issues, but I was wondering if you could speak a little bit about what you think changed between that time or if that’s just simply a difference that owes to the different personalities and perspectives of the two Presidents.

Edley: It’s a great question. I think it is a combination of a couple of things. One, I think we’re simply just a little more sophisticated. We were more sophisticated about the workings of the macro economy by the time we get to the Clinton Administration. The second is that the deficit issue under Carter, and I remember the great frustrations I had doing policy work in the White House, not at OMB, because we had this yawning deficit. This huge deficit of eighty billion dollars or sixty billion dollars or something, which in retrospect just seems like a rounding error. But the pressure that resulted from that I thought was more driven. Was really driven almost by a moral fervor on Carter’s part about balancing the budget. That was my perception. You can make an argument that there was a huge inflation problem. But even then my sense of the analyses for most economists was that the deficit had very little to do with that, that it was oil shocks, it was the money supply, it was a bunch of different things and really the deficit, given the size of the national economy, was not a major factor. But there wasn’t much focus on it as a signaling factor to the market. It was more kind of a moral issue. Carter had been a one term governor in Georgia and had not been involved in national policymaking, to speak of. He was not surrounded by people who were particularly steeped in national economic policy. His OMB director, first OMB director, was Bert Lance, a banker from Georgia—a pretty sophisticated guy but still not a Lloyd Bentsen or a Bob Rubin or a Larry Summers or any of the people that later Republican and Democratic administrations alike brought to those key positions. So there was just an altogether different approach.

The other thing is organizationally in the Carter Administration there was not yet a separate National Economic Council. That economic policy and domestic policy were both driven out of what was called the Domestic Policy something. Domestic Policy Staff, DPS, headed by Stu Eizenstat. The creation of the National Economic Council by Clinton created a mechanism for both collecting and amplifying the perspectives of economists and economoids. Now, the CEA, of course, existed, but the CEA historically has been extremely weak in White House policymaking. Extremely weak. That’s been true in and out of [meaning: across all] administrations. Occasional exceptions based on personality. So it may be that as an administrative matter the creation of the NEC actually created the possibility for more sophistication in economic policymaking. In fact, I’ll bet dollars to donuts that that’s the case.

Meeker: I want to ask a bit of a follow-up question about that. I think that I was remiss in failing to ask you about the establishment of the NEC. Was this an artifact
of that transition period? Was it something that preceded it? The idea of creating an NEC?

Edley: Well, during the Dukakis campaign we spoke about the desirability of doing something like that if we had gotten elected. [That is, I had some conversations with Dukakis about it, and with our chief external national security person, Madeleine Albright.] And I organized the issues shop so that I had a deputy [actually, two] doing national security work and a deputy for economic policy and a deputy for domestic policy. The Clinton campaign, staffed largely by people who had worked in the Dukakis campaign, replicated that campaign structure. So Gene Sperling did economic policy, Bruce Reed did domestic policy and then I can’t remember who did national security policy. [I think it was Nancy Soderberg, who had been one of my two foreign policy deputies for the Dukakis campaign – one who traveled, Jim Steinberg, and Nancy who stayed in HQ with me. And Madeleine Albright was our chief person in DC.] So in a way I think more than anything else it carried through from the campaign structure where you had three co-equal policy leaders in the campaign, each with its own constellation of advisory groups and position paper mechanisms. But we certainly thought back in ’88 that the importance of economic policy and the importance of integrating domestic and international economic policy rather than having it separated, one in the national security council, the other in a domestic council, that pulling it all together as economic policy was the right thing to do. And so in that sense I think this kind of view had just built up within the policy class within Democratic campaigns.

Meeker: Was there any sense of dispensing with the Council of Economic Advisors at that point in time?

Edley: It’s statutory and it also does serve its functions. It’s got some particular administrative functions that it serves, producing an annual report, crunching numbers, advising on projecting interest rates and all the rest of it. And it’s always good to have some pointy headed academic economists who are on leave spending a year in government around to participate in meetings. But you can ignore them if you don’t find what they say helpful because they don’t have any power. I think that was just the reality. Has always been the reality. But every once in a while you come up with a question and, actually, hey, maybe we should ask an economist. And so it’s good to have them there and attentive to the White House needs as opposed to being the bureaucratic creatures of Treasury or of the Fed.

Meeker: Okay, so just a few minutes of your time left.
Edley: Sure.

Meeker: And in that time maybe you can just give me a sense of your transition into a position at the OMB and perhaps a brief description of what that job entailed.

Edley: Right. Let me say one more word about the CEA. I guess the way to put it in the CEA is you can have a lot of talented people there but in my two tours of duty in the White House, I can never think of any occasion which I or anybody else said, “Wait, we can’t start the meeting. CEA isn’t here.” Now, with the possible exception of Joe Stiglitz, who as a member of the CEA, you wanted Joe to be in the room. Not because he was from CEA but just because he was so damn terrific that you knew that there’d be value added if Joe were in the room. But CEA as an institutional matter, you wouldn’t wait for them the way you would wait for OMB to show up or the NEC to show up or the National Security Council to show up or a cabinet agency to show up in a meeting. Not CEA.

So let’s see. How did I end up at OMB? I was ambivalent about coming back in, having already worked in the Carter White House and the Dukakis campaign. I guess Leon Panetta was appointed fairly late in the transition and they went through a period and then finally I just got a call and asked to come down and meet with them. I had a choice between doing something there or doing something with Rubin or doing something in the Labor Department. Had a couple of other possibilities, sub-cabinet jobs. And just decided to do the job at OMB.

Meeker: What was attractive about that position as opposed to the other opportunities?

Edley: It had a much broader subject matter reach. My portfolio included Justice, Treasury, Commerce, HUD, Transportation, all the banking agencies, the SEC, the District of Columbia, FEMA. So I handled all the natural disasters, White House coordination of all the disasters and a bunch of other stuff. About eighty independent regulatory agencies. We had a staff of about seventy-five people, budget examiners and an office the size of a volleyball court. And it was really that breadth that was appealing to me, even though it’s a relatively invisible job. But I’ve never been a limelight kind of guy.

Meeker: So you said that you have a staff of roughly seventy or eighty—

Edley: Career budget examiners. Career civil servants.
Meeker: So, in essence, you’re managing the budget examiners in your role as—

Edley: Yes. But budget makes it sound too narrow because, of course, OMB sits at the channel that also has to approve legislative submissions and testimony and regulations and is intimately involved in all of the policy development work that goes on because if there’s a budgetary implication. So, for example, on banking reform issues or on housing legislation, if there are interagency working groups that are being managed by the White House, OMB is always a part of that. And if I’m not at the meeting, then people in my staff are at the meeting. And, typically, if it’s a White House meeting, I’m the only one who has a lot of staff. Everybody else basically has themselves and maybe a deputy. But on banking issues I had five or six people who had been doing banking issues for years and years. A couple of them for decades and who knew everybody at the Fed and at the Comptroller of the currency and so forth. So OMB has enormous amount of not just power but expertise and horsepower. So for me, one of the first things I did was make sure that my staff understood that I wanted them to participate in these policy meetings, not just to say, “No, it’ll cost too much,” but to actually go to the meetings and try to help solve the problems. Try to help come up with innovative ways to accomplish things and in that way make ourselves useful not just as the budget disciplinarian but as kind of a policy shop that was larger and frankly more expert than what you could expect from individual staff members at the NEC or the DPC. I think it worked pretty well. OMB has fabulous, fabulous staff. They really believe they work for the President, they work for the political appointees, whoever the party is, and they salute and they run through flaming brick walls twenty-four/seven to get the work done. It’s extraordinary.

Meeker: Well, yes, we’re probably out of tape.

Edley: Okay, good.

Meeker: And imagine out of time.

Edley: I have a great mug I should have brought in if I’d remembered, that I was given by my staff at OMB that has the OMB seal on one side and then on the other side it has a graph of the federal debt over time and the message is, “So much debt, so little time.” [laughter]

[End of Interview]