John Hilley

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

[Portions of this interview have been sealed until December 2012.]

Interviews conducted by
Martin Meeker
in 2011

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Audio File 2


Audio File 3

Thinking about debt and deficits broadly—Consideration of contemporary efforts to resolve current deficits and debt
Meeker: Today is the 26 of April, 2011. This is Martin Meeker interviewing John Hilley for the history of debt and deficits project. The first question I want to ask is how you became interested in a career in public finance.

Hilley: That’s a good question. Well, I’ve always had the political bug. Going way back, our family is Democrats for many generations. After I got out of grad school, I was a professor, but I sort of always thought I wanted to get down to Washington. I stayed and got my tenure, but then decided to leave, and came down here in 1983. I went to work for the Congressional Budget Office, which is the halfway house for academics interested in being in policy. Ultimately, from there, I went to the Budget Committee. I’ve always had the itch. Always been a strong Democrat. Sort of raised that way. Believe in it, et cetera, like that. It’s been longstanding. I’ve been very fortunate to come out of an academic background and be able to be in the policy side so much.

Meeker: What is your family’s background with the party?

Hilley: Southern Democrats. I’m fifth generation Floridian. I guess it was my grandmother who said that when the Republicans are in office, the little guys eat dirt. That’s sort of the history. We always felt that way. It persists to this very day.

Meeker: So you worked at the CBO for a couple of years, and in your resume it says as a principle analyst. Can you describe that position?

Hilley: Sure. I was a Ph.D. economist. My area was international. It was in the economics unit. Most of what CBO does is budgetary, as you know, which is analyzing bills, doing cost estimates, some analysis. The economics unit is sort of ancillary. I was the person who did international. I’d monitor trends in Congress about what’s going on in international. We’d write a report. There’s a semi-annual report, of which there’s an economic section. I would contribute the international side. It was good old economics applied to what’s happening on the Hill and in Washington.

Meeker: Were there any particular international concerns that you were asked to focus on during that period of time?
Hilley: Oh, sure. That period, that was the beginning of the fiscal implosion, when I went there in 1983, from the Reagan tax cuts. Obviously, the direct relationship between balance of payments and public saving, or national savings, is direct. Always a large concern of ours was, what’s this doing to the balance of payments—the deficit spending. There was, from the get-go, a direct connection.

Meeker: And that was also a period of time where the trading balance was becoming much more pronounced?

Hilley: Right, right. It was. Of course, nothing that we saw subsequently, but yes, there was a growing interest in that, a lot of it politically driven, of course, as most things are around here. But yes, there was.

Meeker: How did you experience the sort of famed bipartisanship—or nonpartisanship, rather—of the CBO?

Hilley: Oh, it was great. It’s a very easy transition from academia, because it’s all a little bit more abstract and removed. It was really a great experience. I stayed there a year and a half. An opportunity came up for an economist on the Senate Budget Committee, and I jumped at that, and was very fortunate to get it. But CBO is nonpartisan. It’s a fabulous organization. I was, I believe, the last person Alice Rivlin hired. We’re still friends, I would say. I have tremendous respect for her. She’s fabulous. It was a good transition, an easy transition, and we really have a need for a nonpartisan budget office in this place. It’s been able to uphold, largely, its respect, with both Republican and Democratic directors. It’s a good place.

Meeker: When you started to work for the Budget Committee as an economist, what was the nature of that position?

Hilley: The role of the Budget Committee, I’m sure you’re familiar with, is to pass the budget resolution, which sets the binding levels of overall spending and rewards as well as the nonbinding recommendations about how committees will do their work, etcetera. That job was basically to advise the chairman and the members about what’s the economic impact of what we’re doing. Basically, in that period, because the decade of the eighties was one of trying to claw back and correct the fiscal implosion of ’81, very much the concern was, what’s the impact of deficits on interest rates, on national savings, on the balance of trade, on economic performance across the board like that. It was a great job in the sense that I could still be an economist, but I also had the time to learn the federal budget, which is a thing unto itself. Very complicated, as
are the legislative institutions. It was a great place to go to practice my trade, as well as learn the politics and the structures of Congress and the budget and things like that.

Meeker: When you say “learn the federal budget,” do you see that as a political process?

Hilley: Well, it’s both, of course. It’s a mother load of complexity, as you know. Twenty plus percent of the GDP runs through that budget. It’s learning the nuts and bolts of the budget. The various functions, the various agencies, where the money goes, what’s the process for Congress to run that it must do annually to allocate these funds. When you’re on the committees, you wear a uniform. I was working for the Democratic Chairman, Lawton Chiles. We had a view of the world, which in the eighties was that the Republicans had caused this very, very large deficit. Our mantra was to get things back in control. Of course, it was not just Democrats in that period. There was much constructive action by Republicans as well. Pete Domenici and Bob Dole, people like that. In that period, although in fact the implosion was led by President Reagan, it was facilitated by Democrats, particularly in the House, as you recall, through the Ways and Means Committee. The attempts to claw back and fix the problem were actually led, in the early years, by the Republicans, who had control of the Senate. Then when we won in ’86, we sort of continued that tradition. Despite the partisanship of it all there, people like Hoagland and Domenici and Dole were all—and Sheila Burke; she’s probably someone you should talk to as well—played important roles in trying to do the constructive things during that decade.

Meeker: When did you receive your Ph.D.?

Hilley: Ph.D. in 1978, officially.

Meeker: Okay. Our project has a rough beginning date of 1974, with the passage of the Budget and Impoundment Control Act. The creation of the CBO and so forth. We interviewed Charlie Schultze, going back to the Johnson administration, but mostly going back to the Carter administration. Given the current situation of debt and deficits in the United States, we still ask people about the 1970s and 1980s, and how big of a concern debt and deficits were. Given that a lot of people are thinking about them today, and their scale today, there’s a tendency to diminish the importance of them and say that maybe they weren’t all that big of a deal then. I’m interested, say, from the period of graduate school through the beginning of your work in the Senate Budget Committee during the Reagan administration, was there a moment that debt and deficits
start to become a particular issue of note that is going to be attracting attention of people like you as well as elected officials?

Hilley: I’d say a couple things. In terms of the scale of the problem, it really didn’t take off until the beginning of the eighties. I look at the ’74 act more as—as you know, it arose over an impoundment issue with the Nixon administration. There was an attempt by Congress to do a few things, which were to assert its authority, then to also organize itself in a way that gave some overall coherence to the budget process. And, of course, inventing the reconciliation vehicle. Tried to find a means through which budgetary decisions could be made in a more expedited, really, if not rational, manner. I look at that as an assertion of authority, as well as they realized the need to organize themselves internally. Because beforehand, it was sort of catch-as-catch-can. The appropriators did pretty much what they wanted to.

Meeker: The committee chairs were extremely powerful.

Hilley: Very, very powerful. Exactly right. There was no overall constraint set. That didn’t really take off as a huge issue. Was it ’69 there was actually a surplus? Historically, we went from the period of World War Two to where the growth in the fifties and sixties ratcheted down to where, I’d say, they averaged 1.5 to 2 percent of GDP over that period leading up to the eighties. It was only in the eighties that you had this sort of huge loss of control of the federal budget. That’s when it really became useful. It was good that a congressional budget process had been already put in place that at least had some mechanisms—largely the reconciliation bill—through which the larger issues of debt and deficit could be dealt with in the eighties. So something that I think came out of a different tradition. Like I said, it was an assertion of authority between the two branches of government, as well as a need to organize themselves internally. Put in place the mechanisms, like the CBO, like reconciliation, that proved quite, quite useful when the crunch came in the early eighties.

Meeker: But from what I understand, actually, reconciliation could also be seen as a cause of some of the problems as well.

Hilley: Well, that was only later. Through the eighties, as pretty much an article of faith, the reconciliation bill was very closely guarded as a true deficit reduction vehicle. If you remember back in 1990, I guess it was—it was either ’89 or ’90; I’ll have to check—we used the reconciliation bill and its call for purity under the Byrd Rule to basically strip out the capital gains and all other extraneous provisions. It was only in the nineties that reconciliation vehicle came to be abused, and is now roundly abused as a way, simply, of beating the filibuster, whether it’s for deficit reduction or not.
Meeker: So in your estimate, the beginning of the deficit as an issue of national importance is something that comes about in the early part of the Reagan administration, largely due to the first Reagan round of tax cuts?

Hilley: Exactly right. And spending unpaid for—the defense buildup, of course, was a large part of that.

Meeker: Yes. And then also, we’ve identified the indexing of tax rates to inflation as a change.

Hilley: Oh, for sure, substantially. The fiscal dividend just sort of disappeared because of that.

Meeker: When you’re an economist working for Senator Chiles on the Budget Committee, to what extent are you in the conversation about policy initiatives, about legislation from his—

Hilley: Oh, very much so. In fact, as I sort of worked my way up, I became more and more integrated into the policy discussions. We were sort of all of one mind, and it was a matter of prioritizing where you could find the savings. This large fiscal hole had to fill. I wanted to do that. The committees are policy shops, basically. The economist’s role is really ancillary to that. To integrate myself into the real work of the committee, that was essential. That’s how I got to be staff director, also, when it changed hands.

Meeker: A lot of people we’ve interviewed identify—of course we ask about the Gramm-Rudman-Hollings legislation in 1985, but people always say, you’ve got to back up, particularly to the year prior to that, when there was a deal brewing, particularly in the Senate, to, I believe, deal with COLAs. This was then eighty-sixed, if you will, by the agreement between Tip O’Neill and President Reagan.

Hilley: The oak tree agreement.

Meeker: The oak tree agreement, sure. I think that maybe Hoagland has talked about this, and about how Domenici even fell into a depression as a result of this. Like, what am I doing in Washington, D.C.? Am I actually able to cause any good work to be done when some of these more political arrangements are happening? What was that agreement, the oak tree agreement, like from the vantage point of the Democrats on the Budget Committee?
Hilley: That was sort of business as usual. We were very pleased that, under Dole’s leadership in ’83, they’d been able to claw back and actually get the president to sign on to a tax increase. This was really just a political deal between two pols, O’Neill and Reagan. Stunned? Absolutely not. Maybe Domenici felt it more deeply because he was trying to carry the water. But for us, no, it was sort of to be expected. Now, the Gramm-Rudman absolutely caught us by surprise. That was an attempt that failed, but a constructive attempt, I’d say, nevertheless, to say, can we put a stronger sort of enforcement mechanism in place to deal with these issues and hold some hostages? Namely their defense spending and our domestic spending. We can talk about this, but the flaws were evident at the time. It’s like today. They’re playing with the wrong part of the budget and trying to find the savings where the problem was not.

Meeker: From your vantage point, where did the Gramm-Rudman-Hollings legislation come from? You said it took you by surprise.

Hilley: It took our committee by surprise, very much.

Meeker: Was Gramm on the Budget Committee?

Hilley: No, he wasn’t at the time. He had led the fiscal implosion in 1981. But no, he was always sort of a thorn in Domenici’s side, quite frankly. I think, again, it was a good faith attempt to say, let’s hold a gun to our heads to force us to do the real things that need to be done. But you could see by the nature of the legislation, the way that the automatic sequester was crafted, just holding the Medicare to 2 percent, and it’s all domestic and defense discretionary, nothing to do with taxes, nothing really to do with entitlements, etcetera. It was not effective. We had success a couple of years, and then when it got out of hand and we were going to miss the target by a hundred billion, nobody’s going to cut that much, and the thing fell apart again. We just started waiving it, which is sort of what Congress does.

Meeker: When you mention the successes for the first couple of years, some of the analysis describes those successes as really window dressing.

Hilley: Always. A lot of that. Sure, that’s the normal games that are played to make the numbers work as painlessly as possible. I don’t know if it was just more luck with the economy or what that made it work. When the economy changes two-tenths of a percent on the growth rate, the impact on the budget is astounding. You’re left to deal with these numbers. Where did this come from? We thought we did pretty well last year, and then all of the sudden, you’re a hundred billion behind, and what do you do? You waive the budget
act is what you do. Again, you had too small a tool to deal with what the underlying problem was. But I’ll give them credit. It was a good try. It may have done some good.

Meeker: When Gramm introduces the legislation, to what extent did it evolve between that initial introduction and then when it was finally signed by Reagan?

Hilley: It was stunningly rapid. In a four-month period there at the end of the year, we had a whole new budget regime in effect, in substantial ways. It was stunningly quick. We were in fulltime negotiations for four months, mainly crafting the exceptions.

Meeker: Well, that’s the question. What impact did the Democrats on the Budget Committee have on the legislation?

Hilley: I guess we shouldn’t wear this as a badge of honor, but it was to basically carve out what we didn’t want to be cut. That was the negotiation. Since taxes were off the table for the president, the basic Democratic—to be honest, rearguard—action was to basically say on the entitlement side what should be protected. You can go through and look at the whole list of exclusions and limitations there through the kinds of safety net programs that are important to Democrats. That’s what was going on. And then also to try to guarantee the constitutionality and the workability of the sequester mechanism and all the sort of technicalities that are part of that. That’s what that was about. I’ve got to give them credit. From the time of the launch, the major pieces had been set in the consciousness of what could happen. Then the next four months were really a matter of bringing that to fruition and its sort of technical complexity.

Meeker: Senator Chiles was still the Democratic leader of the party at that point in time. Do you know what he felt of this legislation?

Hilley: Again, seeing that he’d been run over by this tidal wave a little bit—Hollings, as you know, is a longstanding voice in the budget world. Hugely credible. There’s a reason that Gramm went to him, and then, very quickly, other Democratic senators, like John Kerry, joined in. It was sort of out of the barn. Chiles did the thing of, well, if we’re going to do this, let’s make it work—was basically our attitude.

Meeker: There’s some sense in the record that the Reagan administration was not exactly pleased with it, particularly because it had the threat of limiting defense spending.
Sure, sure. That was the whole idea. That’s why it was bipartisan, because everybody did have something to lose, basically. But again, the problem is the part of the budget you’re dealing with gets overwhelmed by any economic circumstances. The only waiver for economics was to blow the whole thing up, basically. What they should have done, obviously, a full employment basis budget to weed out the effects of the economy on the budget. That’s something they could have maybe dealt with. Congress is not that good at those things. They came down to just turning it off in the recession—or waiving it, ultimately, when the numbers became too large, even though it wasn’t an official recession.

You had mentioned in passing that raising revenues was a non-starter for the president. I’m wondering if there was much effort made behind the scenes to not just have a sequester which meant cutting spending, but also to achieve the G-R-H goals through revenue increases.

Not so much. Remember, Gramm, who initiated this, was a tax cut guy. Once it had its structure of defense and discretionary as the things held hostage, Gramm was simply not going to be part of something that would work down that avenue. That wasn’t on the table. The other thing is this is the era when debts and deficits really started to get politicized, too. Like I said, in the early years—and thankfully, finally, back in ’97, we were able to balance the budget, although there were a lot of deals made in between—but Democrats had very little, honestly, to run against Reagan on, other than debt and deficits. There was a lot of politicization by Democrats of that issue. With that politicization, and then when Republicans started adopting the anti-tax ideology that was bubbling up through the House and now the dominant wing of the Republican Party, that really made it very, very tough.

From your perspective, what was that anti-tax ideology about? It can be seen as perhaps unnaturally pulling apart two strands, but there is one strand that is simply, on its face, about anti-tax. Then there’s another sense that historians have brought up, and maybe people like Grover Norquist have given some legitimacy to. This is the “starve the beast” idea, that if we cut taxes, that is going to starve the federal government of revenue and will throw the government into deficit, which will then necessitate further cutting of spending. The idea is that really deficit spending is maybe the quickest avenue toward shrinking the federal government.

I see three stages. I think when Reagan started out, that was not the philosophy. It was just that they got carried away on the tax cuts. They thought that the economic impact in coming out of the recession would be better than it was in terms of revenues.
Meeker: So the supply-side idea?

Hilley: Yeah, supply-side. They’d come up with savings maybe later for the defense cuts, since they didn’t do them in the front end. I think it was just an exuberant miscalculation on their part, but it was mainly pushing policy objectives, was driving it, which is tax cuts and defense spending. Now, it did evolve over the decade into the second stage, which is, hey, these deficits are a good thing to hold back the growth of government. That very much emerged through the late eighties and into the nineties. It has gone to its third and terminal stage, I would say, now, which is the Republicans don’t talk about deficits anymore, really. What they talk about is spending. It’s morphed into a direct assault on government, per se. Sort of the shield of deficits as the way to bring that about, both directly and indirectly, has simply been supplanted by a sort of anti-government, where we need to kill the beast directly and we have to cut spending. That’s sort of the stage we’ve now morphed into.

Meeker: It’s difficult for many in the Republican leadership to be in the old school of deficit hawk, given what happened during the George W. Bush administration.

Hilley: Oh, yeah. But, see, they’re not deficit hawks, by and large. I don’t need to name names, but they’re really not out to cure the deficit, because any serious attempt would be to do hugely unpopular things on the spending side, on the entitlement side, which no one is daring to risk right now in a substantial way, or actually carry through on. And/or both raise taxes, which they have absolutely no interest in doing. It’s sort of been laid bare in the last two years. Whereas before, there was sort of this patina of responsibility that we’re out to cure the deficit problem, but it needs to be off the spending side and we don’t want to raise taxes too much, if at all, to where, now, it’s, we don’t really care about deficits so much. What we really care about is curbing government spending, per se. That’s really where the new guys are coming from.

Meeker: That’s interesting. That’s helpful, thinking about this in a broader way. Going back to the second stage of this, in the 1980s, who were some of the Republicans leading the charge on moving beyond just simply increasing defense spending and cutting taxes, who were thinking of this second approach?

Hilley: Of using the deficit to—I want to make sure I understand correctly.

Meeker: Yes. Of using the deficit as a mechanism to shrink the size of government.
I always thought Senator Dole and Domenici were highly responsible, but I think the Gramm camp and the more conservative wing of the Republican Party were all in it together, I believe. They saw the benefit of this, to put the Democrats on the defensive, and it’s true. It’s a marvelous thing to do. On the anti-tax fervor, the indelible thing of the moment really was when George H.W. Bush agreed to the bipartisan deal of 1990. It was two-thirds spending cuts and one-third tax increases—the composition of that $500 billion, five-year deal. That’s when the Republicans formally split in terms of their outlook about taxes, deficits. It’s because that’s when he, with Dick Darman, who I have many, many good things to say about, and it’s too bad that he’s passed—in fact, an interesting guy you might want to talk about is one of my neighbors about a mile over. He’s a guy named Bill Diefenderfer, who was his deputy at OMB. He’s here locally in Great Falls. Bill’s a good guy. Was a close friend of Dick’s. A reasonable Republican, I’ll call him. Sort of the Hoagland kind of Republican.

The crunch came from the Republicans when Newt led the uprising against this bipartisan deal, because it had any taxes at all. The Republicans took a walk and voted against it. Bush had to re-craft it more liberally to get the Democratic votes to pass it ultimately, in the House particularly. Then, having lost the campaign, which was not about taxes, to be honest with you, in my opinion. It was really about that they responded terribly inappropriately to the recession in terms of the extension of the unemployment compensation. Many such things that they could have easily fixed if they were politically astute. But the lesson that was taken from that was, here’s a guy who won Iraq I. Here’s a guy who was a good government president, truthfully, who could work in a bipartisan way, but had lost election because he agreed to a deal with the devil, with the Democrats, to raise taxes. That, with Newt, became the ascendant mantra, which continues to this day, but has, like I said, now morphed into not just anti-tax, which really took off in the beginning of the nineties with the ascent of Newt, but now anti-spending, per se. Per se. That’s what this new Congress is about.

I appreciate your identification of the 1990 Budget Enforcement Act, because that is, I think, a transition point in many different ways. Politically as well as process-wise.

If I can make a side point related to that enforcement act. That was actually quite brilliant, the enforcement regime that was put in there. I credit Darman, Byrd. Well, all of us worked on it, but I credit people because we actually got an enforcement regime that worked, which was the caps on discretionary spending and the PAYGO system. I will say that the largest regret that I have, and I think many of my colleagues who balanced the budget in 1997 have, is that we let those expire after five years, which opened the door for W. to cut taxes.
Meeker: We were just starting to talk about the 1990 Budget Enforcement Act, but before we do so, I just want to ask you about a milestone in your professional life, and that’s you became staff director under Senator Jim Sasser. Obviously, you were still on the Senate Budget Committee. Is that correct?

Hilley: Right. Lawton Chiles announced his retirement. He was actually medically depressed. I don’t know if the triggering event was the ’87 stock market crash, after which we had this huge summit at which nothing at all happened. Nothing. He retired, but then he went down to Florida, and they had just come out with Prozac. They got him on that, and he was governor for two terms. But anyway, he retired, and then Sasser came on. Like I say, the budget is very complicated. Sasser, as you’ll see, is a fabulous politician, a wonderful guy. Knew his members very, very well. In fact, highly likely, if he had been able to win his reelection race, he would have been the leader of the Senate over Daschle. I think he had the votes. He came on and had no one on his personal staff who knew anything about the budget, and so it was really amongst a couple of us on the Budget Committee, and I was fortunate enough to get it.

Meeker: The position of staff director, what does that entail?

Hilley: It’s a big job. That’s my first really big job. You’re running the staff of the committee. You’re interacting with the members. You’re interacting with all the other committee people. Basically, trying to formulate and get past the budget resolution, as well as then track it through its implementation and its enforcement. It is fulltime. The president’s budget comes up in February, then it’s on to the budget resolution, then it’s on to the reconciliation bill, then it’s on to watching appropriations bills and the enforcement. It’s a very big job. We had about eighty staff. There’s some nonpartisan. The majority group gets two-thirds and the minority one-third. So it’s a fairly large operation. That’s where I began interacting with Bill Hoagland. Talk about being blessed to have a reasonable guy, who’s a good guy, to deal with. It was a real—

Meeker: So he was your counterpart, then, in the minority—

Hilley: Yeah. He was Domenici’s staff director. I thank my lucky stars, because here was a reasonable guy. Domenici was also. Chiles and Domenici got along very, very well. Sasser and Pete just didn’t have as much contact, because there is a much longer history between Chiles and Domenici. That was great to get that job, but I was only there two years, and then Mitchell invited me to be his chief of staff as the majority leader.
Okay. So that starts in 1990. So where were you, then, when the negotiations were leading up to the ’91 budget, the 1990 Budget Enforcement Act? The fiscal year ’91 budget—those negotiations.

When Bush came in, in ’89—elected in ’88, came in ’89—he called for a bipartisan budget sit-down. We actually produced $20 billion in savings, something ridiculously small with a lot of movement of funds and everything like that. But in a way, that was okay, because it was bipartisan and we all got along. That set the stage for the next year, the big deal. At that time, out at Andrews, I was still staff director. Throughout the ’91 deal, I was staff director of the Budget Committee. The way I got to know Mitchell was that he, Foley, and Gephardt weren’t there all the time, but they would come in and I’d end up briefing him and working with him so the leader could understand what was going on. That’s how I got to know him.

Okay. 1990, then, there’s this huge sequester that’s going to come down. That necessitated, basically, renegotiating, redoing, the Gramm-Rudman-Hollings legislation. Like you said, there were the caps and the PAYGO rules and so forth. This clearly is important in setting the stage for, I think, the budget surpluses in the late 1990s.

Oh, absolutely.

We’ve been asking people, where did these ideas come from? We’re really interested in the genesis of these ideas, who developed them. How was it that some ideas that represented pretty substantial process changes actually gained political traction?

Process or the budget savings themselves?

Actually, I would say both. From your perspective, I’m wondering if you can maybe walk us through that.

To his credit, I have only good things to say about H.W. Bush—but not the prodigal son. Again, they started that budget year, and again, it was Darman who was the real intelligence on this issue and the motivating force. I remember their team was Dick Darman, who was the intellectual height of their team, Nick Brady, the treasury secretary, and then Sununu, who was there, basically, to keep an eye on Darman.

Political taskmaster, sort of.
Hilley: Yeah. He was there just to try to keep it honest, make sure that Darman didn’t cut a deal that he didn’t like or something like that. The way it started, it was really a several-month dance. H.W. Bush called for a bipartisan sit-down. We agreed to that. Each leader appointed a designee. Ours was Wyche Fowler, who is a terrific guy. Not a budget guy, but a very loyal guy to the leader, which was very, very important. There were the budget people, Sasser, but then the leader had a delegate, and likewise on the House, and then there were the three.

The Democratic strategy was two-fold. Ours was, on the one hand, to prove that we didn’t need the negotiations. That if push came to shove, we could pass our own budget, do some deficit reduction, but we could move the process. Basically what we didn’t want to do was be melted down at the end of the year with a large continuing resolution where it would all be fought on that. We had a two-track strategy. One was to show we could make motion by ourselves. We’re able to pass out of committee a budget resolution, and Sasser was fabulous in getting his guys to vote for that. At the same time, we were negotiating. The other side of the strategy from the Democratic side was to say, listen. We sat down and had this sort of bizarre theater performance—it was in the Mansfield Room, right off the Capitol—where we would go through all our charts, informing each other just how large the problem was, because nobody really wanted to step into the real issues about how are we paying for this. We had all these dog and pony shows, basically, that waste time.

Meeker: When you say we, you’re talking about—

Hilley: Everybody.

Meeker: Republicans and Democrats?

Hilley: Yeah. Everybody’s in there. Somebody from the tax rank committees. We’d have various people come in, and, as all these things sort of do, where the tax guys would come in and tell you, if I’m going to raise a penny of revenue, I really need help. The appropriators would say, if I’m going to cut a penny of spending, I really need help. They’d all defend their jurisdiction. The Democratic strategy was to play stall ball until they basically agreed to put revenues on the table. The key meeting was in May, when Mitchell, Foley, and Gephardt went to the White House, and the need for revenue enhancements. That broke open the negotiations. Once he agreed to that, we realized we could sit down and do this mix of spending and taxes. As I said, it ended up one-third taxes and two-thirds spending.
Meeker: So this bringing revenues on the table, particularly after what George H.W. Bush had to say in New Orleans—“Read my lips”—there is, of course, a Republican conspiratorial point of view saying that Democrats were politically seeking to back the president into a corner and force him to do this because they knew it would be a political liability for him. Versus—we interviewed John Sununu, and I think he said it—that actually the budget issue could be solved without raising revenues. What was your response to that?

Hilley: Maybe it could have been. It was a $500 billion, five-year package, two-thirds spending, one-third revenue. Sure, you could have found the cuts, but that’s not the way the legislature works. When there’s parties in power with stopping power, in the Senate particularly, look, if you want a deal to go through, it has to meet our concerns, and our concerns were not to cut that deeply. I never thought it was an electoral strategy. First of all, it was early. We’d had this good year of working together to do very little. I think it was a good faith effort on their part to address the issue, and we were simply saying, we’re with you. We also want to address the issue. Having railed against the deficit for a decade, we’re with you, but we just cannot do it on the back of spending alone.

Meeker: It’s interesting, because I’ve gone back and read through some of the newspaper accounts of the time. It seems like as early as January, and certainly February, there are these hints that maybe the no new taxes pledge was only meant to be for the first year. It seemed like there was already some hedging.

Hilley: Or fees, or tolls. Just massaging the language and looking for things, yeah.

Meeker: It seems like they were already showing their willingness to negotiate this question quite early on. Is that how you interpreted—

Hilley: No, we felt like it was pulling teeth, to be honest with you. Again, it didn’t pay off until May. We were in that room for a couple of months, just spinning our wheels intentionally, even as most of our work was to push that budget along and say, we’re happy to talk to you, but it’s not your way or the highway. We’re going to do this in a reasonable, middle-ground way.

Meeker: I think that Sununu in particular identifies Rostenkowski as leading the president down this primrose path, and then bringing out a hatchet or something and bludgeoning him.

Hilley: Nah. Rostey—nah.
Meeker: You don’t see him as being—

Hilley: No. I see him as very little, to be honest with you.

Meeker: Okay. Interesting. Go ahead and finish your narrative of this.

Hilley: Okay. Again, politically, this was a decisive year, because having done that, and then having H.W. being good to his word to finish the deal, and there was all the tumult about what the pieces were, etcetera, etcetera, but we went to Andrews, which was a very interesting theater, to be honest with you. Since you mentioned Sununu, I’ll tell a story on him. Bob Byrd was just an astoundingly powerful guy at that time. He lost a lot in his later years, but he had been the leader of the Senate and then was, at this time, the head of the Appropriations Committee. Basically, Sununu came in one time and put his feet up on the table. You cannot imagine the dressing-down Byrd gave him. “How dare you put your feet up in a room of senators.” He just kicked the crap out of him. He was there to say, look, you’re not here to tell us what to do or to push us around. We are a coequal branch of government. If you know about Bob Byrd, you know this is his sort of mantra.

Why that was important is that what Darman figured out is the only way to get a deal was to cut a deal with Bob Byrd. That he couldn’t go so deep on domestic discretionary spending, and that was finally the deal that was cut that allowed it to go through. It did a lot of things that the White House wanted to do with the discretionary money, and it protected a lot of the bottom-line numbers that Byrd wanted to. But that was sort of the behind-the-scenes essence of the deal, was to raise taxes, cut some entitlements, but don’t cut too deeply into domestic discretionary spending.

Andrews was so entertaining. A good friend of mine, Larry Stein, who succeeded me in the White House and on the Budget Committee, he was doing press at that time. Domenici would stand up, and he says, “I know there’s press people in this room, and I want them thrown out!” He was talking about Larry, of course. What we’d do, if you look at the newspaper accounts, each side, we’d argue all day, and then we’d run out and leak to the press as fast as we could. Phil Gramm put cutting social security on the table, and we just put that right on the front page of every major newspaper. We figured out that, finally, at Andrews, we were going to make no progress at all, so we took the negotiations back into the Capitol, really down at Foley’s offices on the House side. The leaders became more involved and we were able to cut this deal. But then, of course, the deal blew up because of the revenues. Newt led his growing assemblage of Republicans out the door.
Meeker: What is your read of that? Sununu basically says that Newt—and he doesn’t have many good things to say about Gingrich—said, listen, we’ve got a deal. I’ve got my people. We’ll agree to it. Then it sounds like he went and talked to his people and came back and says, oh, by the way, there’s not going to be any deal.

Hilley: I disagree with that for a couple reasons. In all my dealings with Gingrich—who, as a legislator, I have enormous respect for. His ideology, particularly version three point oh, wherever he is right now, not at all. But he could deliver his votes. That’s number one. And number two, I think it was his strategy as the way to propel the Republican minority into a Republican majority. This was his way to basically take control of the House.

Meeker: Take control of the Republican caucus of the House or—

Hilley: That, but the macro political judgment was that we are going to be against raising taxes. He led that, and that was one of the keys to their takeover in ’94. It was Hillary health care, the fact that we raised taxes so significantly in the ’93 Clinton budget, and the House banking scandal. But this was a watershed moment historically. It was sort of the death of the Rockefeller Republican wing of the party. The responsible, socially-in-the-middle Republican Party. That was a decisive historical moment, because the Republicans split wide open. The Rockefeller Republicans, the Dole Republicans, H.W. Republicans. They were gone. It was the ascent of what we now see culminating today.

Meeker: From where you stood, where did the caps and the PAYGO come from?

Hilley: Most of the impetus for this came out of Dick Darman, to be honest, of OMB, and was perfected. The Budget staff played a big role with Darman and his staff. Bill Diefenderfer was in the mix at that time. He was his deputy. Would be a good one to talk to about that. It was a combination of Byrd’s staff, OMB and their staff, and our staff, Budget Committee staff, that were heavily involved in this.

Meeker: Does Panetta play much of a role at this point?

Hilley: Yes. Oh, yeah, Leon, definitely. Definitely. Leon has always had good motivation about doing the right thing on the budget.
Meeker: Do you see that there were any good ideas as part of these negotiations in creating the new budget process that maybe didn’t actually make it into the final piece of legislation?

Hilley: That’s a good one and a tough one, because there was more stuff flown through the pipeline than I can remember. I guess I’m only focused on the good that came out, which was the caps and the PAYGO. I’m forgetting when the Byrd Rule was passed, which I believe was in the late eighties. You might have to check me.

Meeker: I think it was a year before this, if I remember correctly.

Hilley: Was it? Okay. I thought it might have been a little earlier than that. The Byrd Rule, when that came, was very good. No budget horizon is far enough for a Republican. The budget projections used to be five years, and everything had to add up within the five years. The Byrd Rule extended that, effectively, out to ten years. Among other things—extraneous provisions get tossed and a few other more technical things. Now, of course, they just sunset things after ten years, and we’re reaping the harvest of that right now with these Bush tax extenders. The Byrd Rule was a very effective enforcement mechanism. Along with the PAYGO and the caps were the three I’d point to.

Meeker: Other than military historians, historians don’t often do the counterfactual, but I kind of have a counterfactual question for you. You’re not the only person who’s identified 1990 as this key transition point in the history of the Republican Party, where you get the Gingrich ring ascendant. Just sort of speculating if there wasn’t perhaps a strategic mistake, both on the part of the Rockefeller Republicans, as well as part of the Democratic Party, in forcing Bush into going against his no new taxes pledge. That it kind of, to a certain extent, played into the hands of people like Gingrich. What do you think about that idea?

Hilley: I don’t know. I think history could not have been different, really, in a sense that they saw this as their key to—and it’s what they believed, too. You look at the budget they passed in 1995 when they came in. They cut $900 billion worth of spending over seven years, and used $270 of that to pay for tax cuts. It was a political calculation, but founded in a policy view of the world, which is what Gingrich carries to this day. Like I said, it used to be masked as deficit reduction. Now it’s just an anti-government fervor. We’ll get to that, I guess, as we go along.
Meeker: Let me ask you about, then, your move over to the majority leader’s office as his chief of staff. How did that differ from your work on the Budget Committee?

Hilley: Well, much, much more responsibility, because I was his advisor on all the legislation that comes through—of course, with a hugely capable staff that he had. The hardest thing is starting something. Martha Pope had been my predecessor and had done a very, very capable job for two years before I came on. She was promoted to the sergeant at arms of the Senate and continued to play an important role for Senator Mitchell from that perch. The plate was much fuller. Everything was more intense. Much, much more involvement in everything. So here we go. Clinton wins election. Then first thing up is a stimulus bill, followed by a deficit reduction bill. I think Mitchell had a sense that he needed someone in his office who could be an administrator, but also really had a feel for Congress and the budget.

Meeker: You’re not chief of staff for Daschle when he comes on as majority leader?

Hilley: No. In fact, I had been asked by both Sasser and Daschle to stay on for at least a year in the transition, which I was happy to do, because it’s a tough place to walk into.

Meeker: Okay, so you’re basically there in the majority, or at least the minority leader’s office, until ’95. During that period of time, of course, is the ’94 midterm elections, when it’s plainly evident of the Gingrich ascendancy. I’m wondering if you can give me a sense of that five-year period of time, from ’90 to ’95, about when it becomes apparent to you that there is this profound transformation in the Republican Party.

Hilley: Oh, for sure. We talked about the ’90 deal.

Meeker: ’92.

Hilley: But the best evidence, of course, is the ’93 budget deal. There was one Republican in the House who voted for it. I think he must have been confused. There were no other Republicans in the House or the Senate who voted for this. As you recall, Gore had to take the chair to do the tiebreaker. That was excruciatingly painful. In a sense, Clinton made a rookie mistake by sending up a ridiculously small stimulus bill that the Republicans quickly trashed and forced us to bring down. That, in many people’s minds—and I just see it as increasing the intensity—but that poisoned the well in a large way, because we were at each other’s partisan throats very quickly. That’s sort of inevitable
when a Democratic president comes in, just as you saw with Obama. Whatever it is, they’re going to be against it, because they have to reestablish their power and their credentials.

In ’93, here we go. They send up this ridiculous stimulus bill, which they never should have. But then here comes the real thing, the budget. It’s clear as day that the Republicans are going to have nothing to do with it because it raises taxes. Then, it became Democrats-only deficit reduction. It was the same size as the Bush package, within a few bucks, but it was fifty-fifty spending cuts and revenue increases. They all took a walk on that. It was very, very clear. Like I say, if there’s a decisive thing that undid us in ’94, it was that, followed by the complete Hillary health care meltdown, which was, again, an easy to do—because it’s so complicated, so emotional—politically designed thrust by the Republicans to also put a failure on Clinton. Then the House banking scandal. I think that’s always underestimated. People said, who are these SOBs?

So there you are in Capitol Hill. I want to talk, actually, a bit about the ’92 election, and particularly this sort of narrative that we’ve been told about Clinton’s evolution from candidate Clinton to president-elect to president. That is the notion that he comes out with his policy, putting people first, in the campaign, which is greatly influenced by people like Reich and Ira Magaziner. Involves a lot of strategic investment. Cutting the deficit is certainly in there somewhere, but it’s not as prominent as it later becomes. Then there’s President-elect Clinton, who now has a lot of advisors. People like Bob Rubin and Bentsen coming in as treasury Secretary. Leon Panetta. I guess Rivlin is his deputy to begin with. Then also the influence of people like Alan Greenspan, who was really keen on getting the government to cut the debt.

When the Democrats were in charge, yes.

It’s interesting, isn’t it? And then President Clinton, who has this new package. The stimulus, like you said, is really small. Cutting spending and raising taxes is really the idea to cut deficits. Does that seem like a reasonable narrative of his evolution?

That’s right. In fact, of the several ways he could have gone, from being candidate Clinton to President Clinton, you’re absolutely right. That was not in stone at all that deficits would become the thing. Again, it’s the influence of people like Rubin, Wall Street, Bentsen, who had always been sort of a fiscal conservative. And remember the CBO numbers that came out and basically said—and these were huge numbers at that time—you’re looking at $300 billion deficits as far as the eye can see, at least for six years. I think that
caught his eye. Then the Wall Street element—and it wasn’t just Rubin. It was Roger Altman, who was the deputy secretary of the treasury, another Wall Street guy, basically saying, this is going to raise interest rates, this is going to crowd investment. You’re going to get hurt because the economy won’t be growing. That whole narrative took over.

I wonder what you thought of this, being that, after twelve years of Reagan/Bush, and the end of the Cold War, there was this idea that things were going to change and we were going to be able to invest in America again. Even though Clinton didn’t win on a majority, he won legitimately. How did you feel?

I thought it was quite strange, to be honest with you. I understood why it was happening. Like I say, the Wall Street influence, some fiscal conservatives such as Bentsen, and the CBO numbers, I think, had a profound impact on him. It was certainly politically naïve, given everything that we’d seen. It’s also true—we’ll not name names about this—his key advisors did not know anything about the budget when they began to work for him. These are people who became expert over the years. A couple of us would be sitting in my office up on the Hill, and during the transition they’d come in and say, “Can you tell us about the federal budget?” basically. It was sort of this concept of crowding out Wall Street vision, fiscal conservative, that led him to do this thing. Given what had happened under the Bush budget, missing the call on taxes, it was very strange. The hardest job in the world is to be the leader in congress with the president of your own party, because you carry all that water, and the electoral peril is intense, as has just been demonstrated one more time. People walk the plank for a policy idea that may be good, such as health care, but which is fraught with political damage. I think the parallels between the first year of Obama and Clinton are just astounding.

Interesting. You get to this vote. In the Senate, there were no Republicans voting for it. They forced Gore to come in and break the tie.

We lost six Democrats.

You lost six Democrats in that vote as well. There’s also this notion that we’ve come across that, don’t always pay attention to what the votes are, because there needs to be just one vote to pass it or one vote not to pass it. Did you see that budget—the fiscal year ’94, passed in ’93 budget—as one of those votes, where they could have gotten additional votes if necessary?

Oh, no, we couldn’t have. We were flat-out. No, we killed ourselves. The last vote was Bob Kerrey, and he was on the wire up until the very end, for
reasons that were rationally inexplicable. A lot of guys, like Boren and Sam Nunn, who were conservative, they were smart. If you’re smart, you’re the first one to say you’re not voting for it, not the last one. But no, we had nothing to spare. We had not an inch to spare. Same in the House.

01-01:01:07
Meeker:
I actually found it rather interesting not only that there were so many Democratic defections, but that reasonable Republicans, like Domenici, especially given that Alan Greenspan comes out and says, this is really the first time that there’s a legitimate effort to battle deficits, that the Democrats were unable to get people like Domenici or Chafee or somebody to vote with them.

01-01:01:33
Hilley:
Before my eyes, in my time in the Senate, I saw that evolution going on, which is the loss of a middle in both parties. When I started with Mitchell, there were six or seven Republicans we could deal with on most issues, sort of across the spectrum. That sort of vanished as the hardness of the politics and the focus on the fiscal issues took over. I’ll say it again. The Republicans are incredibly good at closing ranks. This is an aside, but anybody who thought that Grassley was going to be for health care reform needs to have their head examined, because that was his last year on finance, he needed Mitch McConnell to approve his move to judiciary, and there was no way in the world they were going to do anything. I do not know what people were thinking to spend six months negotiating on something that they’re not going to be there for at the end. Again, the parallels are stunning between Obama and Clinton.

02-00:00:01
Meeker:
Well, again about the passing of Clinton’s budget in ’93, there’s the question of why you weren’t able to get more votes, but then I’m also curious about how you were able to get the votes that you were able to get.

02-00:00:16
Hilley:
It was hand-to-hand. It really was. In any caucus, you’ve got the—I’m going to be generous—the 70 percent who will be with the leader, like Teddy Kennedy, or Paul Sarbanes, or any of these guys who will argue their point. Often go out and do their own thing, but at the end of the day, they’re going to come back and be with the leader and do what’s right for the caucus. Then you have, like I say, a conservative group who you really can’t count on. That group is growing also. Then you have the guys—there’s two classes. There are the ones that can’t make up their mind, and sort of the guy that they last talked to. Then there’s the one who plays the process to extort something out of you. All those factors were at work, and it’s all we could do to squeeze those votes.
Meeker: I wonder the degree to which Greenspan’s support of this budget was important for getting some Democrats onboard.

Hilley: I don't know. I don't know. The Stockman book reveals Greenspan exactly for what he is, in my opinion, which is a Republican. I won’t use the word “hack,” but it’s pretty close to it.

Meeker: Okay, so you were working with Daschle, I assume, during the 1995 shutdown. I’m wondering if you can just offer an overall comment on this, because we obviously just went to the brink of something similar.

Hilley: It was an absolutely fascinating year. I’m glad I was still there and I could be helpful to him, because it was all about the budget that year. I give Newt credit. They said, we’re going to pass these frickin’ bills through the House in a hundred days, and they did it. The hardest nut was that reconciliation bill that did so much. Politically, it was manna from heaven for the Democrats. To line up $275 billion in Medicare cuts against $275 billion of tax cuts—even the dumbest House Democrat could figure that one out.

Meeker: What do you think they were thinking? Gingrich is quite astute politically.

Hilley: He is. I don't know. They weren’t being careful. It’s funny how those things happen. We went into full opposition mode, and then Clinton got some spine and vetoed the two reconciliation bills. Several things are interesting. One is, when this veto fight was going on, we had absolutely no idea who the public was going to blame. We’d sit down and go, who do you think they’re going to blame? Are we going to get totally screwed? Are the Republicans going to get totally screwed? We had no idea. It broke our way, because I think the press didn’t particularly care for Newt. Early in the year, he had broadcast this was their strategy. If they won’t do it our way, we’re going to shut the government down. That was an intense negotiation in and of its own right. Clinton got directly involved down at the White House with the leaders. In ’97, he did not negotiate at all. He’s not a good negotiator. He’s a brilliant man, but he’s a terrible negotiator. They took it to the leadership level and excluded all the budget people, who really had the expertise to pull the deal together. Both Kasich and Domenici were furious that they were excluded. They were like staff. They were told to sit in this room while the big boys are cutting the deal back here.

Meeker: In ’95?
In '95. Finally, the whole thing melted down. We had the two vetoes, the government shutdown, which, in historic terms, was historic, because that’s when Monica walked into the Oval Office—during the shutdown. In any case, we saw that it was going to be a stalemate, but having spent the whole year back and forth with each other, they needed a way to exit. Four of us put together the compromise budget. We did it in two days, because all the elements were there. They finally said, okay, this is an outline of how we can go forward next year, and now we’re going to let the appropriations process. We’re going to sign those. We’re going to do a CR and we’re going to go ahead with this thing. That was an incredible year politically, because Clinton had stopped the extremists, as it was envisioned, and that set the stage for his easy reelection, basically. You remember what trouble he was in in his early years. He could have been bounced. '95 saved him, basically. Then I went to work for him at the beginning of ’96. It was a pretty sweet reelection.

Much has been made of the triangulation strategy after 1994, with Dick Morris and the notion of him positioning himself between the Republicans and the Democrats in Congress. But the way that you’re describing 1995 now, it seems like there was more of a unified purpose amongst—

In '95, there was unified purpose, but '96 is where the triangulation came in, in a—I’m going to say it—constructive way. I completely agreed with Dick’s strategy. We were all involved in these things and all these deliberations. I was in the middle of it because, being head of legislation, it was all about, what are we going to do vis-à-vis the Republicans, the Democrats, House, Senate? Clinton, wisely, wanting to get himself into the middle for the election, he first vetoed a pernicious welfare bill, but then signed one that was much better. The story of that is always distorted. It’s depicted as, we Republicans led the way to welfare reform, and the Democrats go, he abandoned us, yaddah, yaddah. But in fact, he vetoed a very pernicious one, then signed one. Then the main problematic thing with it was the provisions about lack of social safety net for immigrants, but we were able to correct that in ’97 as part of our budget deal.

We did several pieces of legislation in ’96 with the Republicans. A small business bill. The health portability bill. A couple environmental bills. We were very fortunate in this respect. When Dole left the Senate—first, he, if you recall, tried to run out of the Senate, which is absolutely impossible. All we’d do is we’d just make him have miserable votes, twenty-four hours a day. He finally got the idea that he couldn’t possibly run a presidential campaign out of the Senate. So he quit, and then comes Trent Lott, who you should talk to. I really like the guy, to be honest with you. He’s Southern, and necessarily because his base is quite conservative, but he is a reasonable, deal-making guy, who we found it an absolute pleasure to work with. Dick was tied into him as well. We were able to do three or four significant pieces of legislation,
in the middle, with bipartisanship, which is exactly what was needed for Clinton’s reelection. That the left wing of the House Democrats felt left out—well, folks, this is politics.

02-00:07:47
Meeker: Well, there is this notion that Clinton’s ’96 reelection—you could either have Clinton reelected in ’96 or you could have, perhaps, Democrats returning to power in one or both houses in Congress.

02-00:08:01
Hilley: Oh, no. I disagree with that completely. No. The presidential tide lifts all boats, in my opinion. Particularly, it was a significant victory, too. What was it? About eight points, something like that, popular. It was a major victory, given these political times. No, I completely reject that. I never saw it, never heard it, and never lived it.

02-00:08:27
Meeker: Okay. This is interesting, then. You had mentioned how the left wing of the Democratic Party was upset by this.

02-00:08:38
Hilley: They’re an easily upset group.

02-00:08:40
Meeker: They’re easily upset, both in Congress, but also the representatives of that wing in the White House. People like Robert Reich, in particular, and I guess maybe George Stephanopoulos maybe would have—

02-00:08:48
Hilley: George is much more transactional.

02-00:08:50
Meeker: Is he?

02-00:08:51
Hilley: Yeah. Did you say Bob Reich?

02-00:08:53
Meeker: Yeah.

02-00:08:54
Hilley: His influence wasn’t as great as you may have been led to believe.

02-00:08:58
Meeker: Can you unpack that a little bit for me?

02-00:09:00
Hilley: There are about twenty-five important people in the White House. It’s not because you’re good-looking or whatever; it’s because of the role that you play. The only two cabinet secretaries—off to one side is, of course, state and defense, which is sort of its own universe. But in the day-to-day policy,
political arena, message arena, the whole unified shebang, only two cabinet secretaries matter at all, which is treasury and OMB. They’re the only ones that sit in at the 7:00 a.m. chief of staff meeting. It’s those twenty-five people, the heads of the basic departments of the White House, the political, the policy, etcetera, etcetera, and those two cabinet secretaries. That’s where 90 percent of the decisions come from. That’s just a fact.

Meeker: In Clinton’s memoir, there’s a great photograph of his two cabinets. I think one of them, they’re sitting around a conference table in the West Wing. Where people are sitting is very specific. How close they are to the president. There’s the president, the vice president, the secretary of defense, state, treasury, right there. Then the further you go around, in the back, you start to see transportation, and health and human services and everything. It seemed like it’s an instructive representation of power in the West Wing.

Hilley: I’ve seen this in all the White Houses that I’ve been able to observe to any degree. It is such a huge problem to both run a tight-knit ship like you must in the day-to-day pressure and the need for the cohesion of all the elements of policy, politics, message, communications, speech writing, scheduling. The whole complex that goes day after day. It’s very hard to do that and integrate the cabinet in any meaningful way. Obama has not succeeded, and we didn’t succeed at all. Our cabinet felt like they had no idea what was going on, and that’s the truth. They didn’t know.

Meeker: Historically, what cabinets have been successful from your—

Hilley: In my time, I don't know. I really don’t see it. Reagan was very concentrated in the White House. H.W. Bush, no. Brady was a figurehead in treasury. Darman was powerful. Our own time, no. Obama, same thing right now. W., I don’t know what they were doing.

Meeker: So in February of ’96, you’re brought over to the White House. Can you describe this process by which you go—

Hilley: Yeah. Every two years, they needed a new body in there to throw themselves in front of the congressional horde. [laughter] Oh, it’s an exhausting job. It just is.

Meeker: And they’re usually coming from Congress, too.

Hilley: Yes. Oh, sure.
They have to work with their relationships.

You have to know who is who and who you can trust. You have to know how the system works. I’d say it’s virtually impossible to have somebody without congressional and leadership experience. I’d already dealt with House, Senate. In my role, I had already been dealing with the White House, and so it was a natural kind of thing. Pat Griffin was my predecessor. A great guy. He lasted two years. Then I was only there two years. I was there the best two years, to be honest with you. I lucked out. The win in ’96, and then the balanced budget in ’97. Leon was a terrific chief of staff, and Erskine Bowles was a terrific chief of staff, so I was lucky. Then I was fifty years old and it was time to go out and make some money. It was just exhausting. We had a big accomplishment. Thank god. My retirement party was when the Drudge thing came through. A guy comes to him, he says, “Have you seen this?” It’s the whole Lewinsky thing breaking over. I remember Larry Stein, who took my place, who’s another guy you might want to talk to, Larry came to the office the next day. I said, “Larry, listen, in light of this, you don’t have to take this job, but I ain’t staying.” I was gone, and I was so glad, because Clinton screwed himself out the last three years of his presidency. Unforgivable.

I knew Leon from working on the budget. He was a great chief of staff to have. He was hugely knowledgeable in the budget and appropriations and everything. We had a very good working relationship.

You said head of legislative affairs was throwing themselves on the hordes, right? Can you describe what your job description was?

You’re the president’s lobbyist, in sort of the cheapest terms. You’re trying to get his legislative priorities passed. You’re dealing with every entrepreneur, wildcat, knucklehead, fabulous statesman in the world. Every one of them has their own sets of needs. It is just very, very difficult. Particularly in ’97, when we did the bipartisan budget, although we had 80 percent support in both bodies, in both caucuses—approximately 80 percent; slightly under that on the spending bill—we basically had to roll the left wing third of the House Democratic caucus, including Dick Gephardt. My job was to basically roll, or piss off, a third of the Democrats in the House of Representatives. That’s neither a good recommendation to continue or to be a lobbyist in Washington. Thank god I never had to lobby. Oh my god. But anyway.

Kind of in this broader sense, you’re an economist, and you had come from the Budget Committee. When they brought you in, was there a sense that there was going to be a balanced budget on the horizon?
Hilley: No.

Meeker: That budget was going to be something that you would be working on really centrally?

Hilley: We were working on it centrally, but not the big deal. When I came in, we had just had ’95 meltdown. Leon, to his great credit—our first work for a couple of months was—just like this year; I’ll say it again—trying to get the appropriations bills passed for a year that was going to run out in six months. Our whole legislative strategy had nothing to do with the big deal, because we knew taxes were off the table. Clinton needed to move to the center. So our legislative strategy was to keep the wheels of government turning over here, but then show that he’s the guy in the center on several pieces of legislation. That was our strategy. But no big deal—

Meeker: Did you help develop that legislative strategy?

Hilley: Oh, yeah, of course.

Meeker: What were some of your ideas, then, vis-à-vis the kind of bills that you would want him to sign to make him electable in ’96?

Hilley: Having worked with and against the Republicans for so long, you know what they want. You sort of know where there’s room for something in the middle. That’s the way you go at it. Again, I’ll say it. We were very fortunate to have Trent Lott and Dick Morris, although he’s sort of gone a little off the deep end these days. But he was a hugely constructive force in that White House in ’96. He really was. It was a Kennedy-Kassebaum bill on health care portability. There was a safe drinking bill that had some Republican cosponsors. That’s the kind of thing we look at, and then we work with the Republican leadership to see if we can pull it off, always knowing what’s going on in the Democratic caucus and what they can and cannot swallow.

Meeker: Did you play a role in the negotiations for the welfare reform?

Hilley: Well, yes, but not as directly as Bruce Reed. Bruce Reed was our lead guy. We were telling the president, you’ve got to sign this thing. It was my advice.

Meeker: It was a hard one, because I know that there were some resignations in Clinton’s cabinet as a result of that vote.
Hilley: Donna was against it, but she didn’t resign. I’m not sure who you mean.

Meeker: I don’t have the names.

Hilley: That was Donna Shalala. Maybe down the ladder a little bit, but you never know. Again, this is a tough reality. Like I said, he vetoed a bad one and we fixed the major flaw in it the following year. We were fortunate to be able to do that, of course.

Meeker: So it’s not a piece of legislation that you personally have any regret—

Hilley: No, not at all.

Meeker: Let’s talk about this ’97 Balanced Budget/Taxpayer Relief Act—the two pieces of legislation. I read the book. It’s great. If I was teaching a course in political science, I think it would be a really useful text.

Hilley: Well, thank you. I waited a decade to do it, because I did one mainly for students. I didn’t want to kiss and tell kind of thing.

Meeker: You’re going to have to tell those to us now. [laughter]

Hilley: Well, thank you. Yeah, it was an amazing opportunity. I was personally very fortunate, because Leon left and Erskine came in. I was the only one with true budget expertise, and so I got to sort of play the lead in the deal, which was great. But Erskine and everybody else did their amazing parts in the thing. As I go through in the book, in a way, and you mentioned it before, if it wasn’t for the H.W. deal, if it wasn’t for the Clinton deal, and the wild growth and the revenues coming in, we’d have been in absolutely no position to have a deal. The thing people forget about that bipartisan deal is the only reason it was possible is because we did not have to raise taxes. If we would have had to raise a penny of taxes, that would have been no deal, because the Republicans would have never agreed to it. That’s how ingrained, even by ’97, the anti-tax sentiment had become.

Meeker: Well, it also did include some tax cuts.

Hilley: Oh, yeah. The thing we were most concerned about was that, in balancing the budget, we didn’t lay the time bomb to blow the budget in the out years. Most of Bob Rubin’s good work in the negotiations was to limit the out year
revenue losses to $250 billion over ten years. We spent so much time worried and focused on this, because many of the things the Republicans wanted—the IRAs, the backloaded IRAs, the capital gains—so many of these provisions are huge revenue-losers in the out year. So yes, it was about tax cuts, which had a nice gloss on it and made people happy, although the House Democrats hated it. They’re constitutionally against tax cuts, I guess, on every front.

Meeker: But it made it palatable to some Republicans.

Hilley: Oh, absolutely. There would have been no negotiation if we had to raise a penny of taxes. The tax negotiation was how to limit the damage, from our viewpoint.

Meeker: This is sort of an aside, and it’s kind of me reading in between the lines a little bit in your book. I’d like you to comment on Rubin’s role before we move ahead. It sounds to me like there was some reluctance among Republicans to sit in the same room with him.

Hilley: Oh, very, very much so.

Meeker: I never really got a sense why that was.

Hilley: They really didn’t like Bob at all. Several factors. When the government shutdown came in ’95, they wanted to accelerate the big showdown on shutting the government into the summer, but Bob, as treasury secretary, was able to manipulate, in their words, the trust funds so that it was late in the year. They felt that he had totally screwed them.

Meeker: He outsmarted them.

Hilley: Yeah, on that front. They hated the fact that he was so rich but still favored increasing taxes. They’d say, “How can someone that rich be against the capital gains tax cut?” Which is counter-logical, because if you’ve got $100 million—how much do you need in this world? So that. Bob is, as you know from talking to him, a very reserved kind of guy. Bob is a very reserved kind of guy. Look at Newt. Look at Lott. They’re these Southern, gregarious, effusive guys. The personality just weren’t there. A large part of Erskine’s and my job was to say, we’re not meeting without Bob Rubin in the room. We were not going to go there at all, ever. It was rough.

Meeker: What do you mean by that?
Hilley: We had to meet. We had business to do. They’d say, “We’re not going to meet if you bring Bob Rubin.” We’d say, “We’re not going to come if we don’t bring Bob Rubin.” Pretty rough at times.

Meeker: What was your motivation of bringing him there?

Hilley: He’s part of our team and he’s the treasury secretary, and he had been head of National Policy Council. There were five of us that were the core people for the group. Myself, Erskine, Bob, Gene Sperling, and Frank Raines were the five, basically. We’d go into meetings, and we’d bring Bob, and they would not talk about anything. They would refuse to discuss substance. We finally got over that toward the end, but it was a very weird thing.

Meeker: Thinking about you negotiating with the Republicans—you had said the five on the Democratic side. Who were the main Republican officials as well as staff people who you were engaging with?

Hilley: As you know from the book, there were several stages. The early stages were really the Budget Committee people, Kasich and Pete Domenici. I had not known Kasich well before this year. Do you know John?

Meeker: No.

Hilley: He’s a piece of work. He’s a true believer. As a person, I really like him. He’s a true, true believer.

Meeker: A true believer in?

Hilley: Cutting government.

Meeker: So not just cutting taxes, but cutting government?

Hilley: Oh, absolutely. Absolutely. So it was the budget group that basically agreed to the resolution. Pete and Bill Hoagland played a big role. We had the old parade again. Every chairman would come in. I sort of recounted this. There was the dog and pony show, but then it was basically the budget committees who put together the resolution, and then we passed it to the committees, which is fair and right, because that’s what they do. That’s when the real work begins with the reconciliation. Frank Lautenberg played a very constructive role, even though he was new as ranking. But then when it went to the next
stages, it was hand-to-hand combat with really the Finance and Ways and Means Committee. That’s where all the money was. The appropriators had been given a pot of money, and they could pretty well behave themselves and didn’t need so much guidance. But everything was the reconciliation bill, and 80 percent of that is out of the tax writing and the entitlement committees. That’s where all the action was, and dealing with Archer. We were very, very fortunate again—this is a guy you might want to talk to. A guy named Ken Kies, K-I-E-S. He was the Republican head of the Joint Tax Committee. He was Archer’s right-hand guy. Ken knows everything about the tax code. Archer, not so much. The key guy, to be honest with you, that we dealt with on tax issues was Ken, as opposed to Archer. Then, of course, on the Republican side, it was one, two, and three Newt. DeLay played an almost nonexistent role. Armey was there, but he was there to keep an eye on Newt, for the even further right-wing part of their caucus. Frank and Gene worked a lot on the spending side, as I did, and then on the tax side, it was basically Bob, myself, and Erskine. If I had gone full-bore detail about all the committees, it was just a fulltime nightmare getting that reconciliation bill through.

One of the things that I found to be really interesting in your book, and we actually had a good conversation with Hoagland about this yesterday, was the debate and then the decision to go with a special, or as Hoagland would prefer to call it, sort of a modified special process, as opposed to a regular process. And the fact that frontloading in the process were these bipartisan negotiations that really established what the broad outlines of the goals would be, as opposed to kind of firing these cannonballs over the bow.

The first instinct on both sides of the politicians is, let’s give them a good screwing before we sit down. That’s their first instinct, which was completely wrong. We caught a lot of back draft and a lot of grief from our own side, and I don’t know if Bill did from his side, about negotiating. We caught a ton of grief about, make them put out their own budget. Let us kill them on it first. Let’s weaken them. Like that. As you know from the book, we were in secret negotiations, even before the president’s budget came out, which was essential to have the budget not arrive dead. We did absolutely the right thing, because they were the majority and we were the White House. Of course, Daschle was fabulous. Have you talked to him yet?

Yeah, we had a short interview with him.

He was really the perfect guy to have as the Democratic leader, because he understood. Pete Rouse, who was his chief of staff—great guy—they were very, very cooperative through all the stages and helped us, at numerous, numerous times, keep the caucus in line in the Senate. The House was terrible,
because Gephardt and Bonoir were completely against us. Fortunately, there were probably eighty House Democrats, of the New Democrats, the DLC, the Democratic Leadership Council, sort of the moderate Democrats, who we could work with and move the process forward to the point where, when it became obvious we had a really good deal cooked up here, almost everybody was able to jump on the deal. Working the House was just terrible.

Meeker: So would you describe it as a regular process, or is it special process, or something in between?

Hilley: No, Bill’s right. We inverted the order. I’m just trying to amplify that that was the right thing to do.

Meeker: Okay, then let’s step back a little bit and think about this in a broader policy sense. Based on your experiences with this, do you attribute your successful negotiations to the revised procedure or more so to the context of the time that, like you said, meant that there were not—

Hilley: It’s a very good point. There’s something I should have mentioned before, which is, in my time on budget matters, what you’ve observed is a consolidation of budget decisions into the leadership. Look at Bush’s first one in ’89. Leadership designee right there, and then ultimately the leaders involved in ’91 to work it out. The appropriations process has become so screwed up, where you can pass veteran’s, defense, and homeland security, but that’s about it, that, at the end of the day, it’s the leader and the president’s people sitting down and doing the negotiation, because you just can’t run a cranky committee process. The historical trend, because of the scope and the partisanship and the politics of the budget, has been a consolidation of power at the leadership level, necessarily. This was sort of the bipartisan version of that. Even though in the first stage it was us, the White House, and the Budget Committee guys doing the work, Daschle knew everything that was going on. He was a party to everything we did. We wouldn’t dare hold anything out from an ally. The problem with Gephardt was, being a good Democrat and one of our guys, he’d come down to meetings at the White House, he’d learn stuff that he would then use to undermine our effort. Like sicking AARP on us, or sicking the unions on us, or sicking somebody on us. That made it difficult, but that’s just part of the process.

Meeker: What do you suppose his motivation was?

Hilley: His motivation was pure and simple. It’s the Stone Age-old one, which is, if we can melt this down, then the majority is going to get the blame and we’re going to win the House back. That was his motivation.
Meeker: Okay. We’ve invited him several times, and to no avail, because he played such an interesting role in all of this.

Hilley: Just a side note on Dick Gephardt. A guy I really like. I thought he was a fabulous leader. He was instrumental in the ’91 deal and instrumental on the no new taxes pledge and everything that went with that. Without him and Foley, we’d have never passed the ’93 agreement. Ninety-nine percent of what I have to say about him is good. In fact, maybe 100 percent. It’s just that he and Clinton had different political calculations about what needed to work in that particular political year. It was different. I was working for the president, not Dick Gephardt.

Meeker: Do you think if you had been in his position, that would have been the logical approach to take?

Hilley: Absolutely not. No. Well, it was an easy calculation for the president, because when there’s a victory—and Obama is finally figuring this out. When there’s any kind of victory, you just take frickin’ credit for it, and you do pretty well. Gephardt may not have been wrong, to be honest with you. In other words, these are tough guys, Newt and his boys. I don’t know if you got the flavor from the book, but there is no conversation going on between the two parties in the House of Representatives. Whoever’s got the vote just screws the other guy. There’s no tradition of working together at all in the last, I’d say, thirty years. It’s just sort of all broken down, and more so today. I understand his calculation. It just wasn’t ours.

Meeker: Interesting. Another point that you make is an overview point about the ’97 legislation. You compare it, basically, to the failures of ’95, in that the negotiations in ’97 were delegated, whereas the negotiations of ’95 were done at the very top level. What are your thoughts on the relative importance of negotiations between high-level staffers versus the principles? Is that something that maybe has application beyond this particular situation, or was it unique in facilitating this particular negotiation?

Hilley: You needed the Budget chairman and ranking in there. It was their jurisdiction. The iron law is, don’t mess with jurisdictions. You can see from the book that congressional staff and White House staff played a very, very constructive role in the whole thing. The truth is, like I’m saying about Archer, he alone could not have pulled this off. If he didn’t have this brilliant staff guy, it would not have happened. That’s true for a lot of members of Congress. In terms of our thing, like I said, Clinton was a terrible negotiator. He likes to say yes to everybody. He played an amazingly constructive role, though. Mostly what he did was keep our Democrats in line and explain the
political logic of why this is true. We’d have the ranking committee members, we’d have the black caucus, the Hispanic caucus, the Asian caucus, the New Democrats. We’d just churn them through there to try to speak to them, and he was a master at saying, look, here’s the politics. Here’s why this is good for us Democrats, and on and on like that. And being incredibly knowledgeable about the budget, our policy discussions, he was totally up-to-speed and a part of every major policy decision that was made. But not once did he negotiate. In fact, when we had actually concluded the agreement, there was one outstanding issue. I can recall it if I think about it. There was this one issue. We had sort of already settled it. Everything had been settled. We thought, well, let’s put him on the phone with Lott and try to work this out. I think I have this in the book, maybe. He just gave it away in ten seconds. It was just so funny. We’re all looking at each other. It’s a good thing he wasn’t in the room. That’s not to slight him in any way, because he’s the president. He’s got so many more things to do. As long as you trust the people you’re working with, if you’re involved in the policy and you’re doing the upper-level politics that are needed, he did exactly as he should have done.

02-00:35:39
Meeker: So you’re kind of saying it’s more specific to the personalities involved as opposed to a prescription for how legislation should be made going forward?

02-00:35:50
Hilley: Clinton made a mistake in ’95 being directly involved. Legislators have less to do and have more expertise and are more narrowly focused. It’s easier for them to be in. Plus, they’ve got to run the committees and the jurisdictions and get the votes. So it’s more natural for them to be involved. If I think back to H.W. Bush and Clinton, they delegated this to senior staff on both sides of the aisle, and Congress and the White House were essential to this.

02-00:36:19
Meeker: Just bringing it up to today, a lot of the griping about the budget negotiations that almost led to a shutdown, you heard a lot of people say, well, Obama has not been involved in the negotiations.

02-00:36:33
Hilley: He sent Biden up there to do that.

02-00:36:37
Meeker: Which actually then brings up the question of the role of Gore. This is another one of those things that I kind of was reading in between the lines of your book. It sort of sounds like Gore was almost working as Clinton’s second, more disciplined brain. There were moments, like these meetings at the White House, where Clinton was maybe starting to go off message a little bit, and then Gore would sort of jump in and try to—

02-00:37:05
Hilley: Gore is a very interesting guy, and I really, really like him. I think history will mark that the election having been stolen from him in 2000 was just
catastrophic for our country in so many ways. Gore is very interesting for several reasons. One, he’s very, very intelligent. He also had his own sphere of issues that he was more concerned—more on the environmental and that side of life, and reforming government and things like that. They had sort of a division of responsibility, and he was sort of off on that. He wasn’t nearly as involved, although his chief of staff, Ron Klain, was in the day-to-day, and Gore was fully informed of everything, of course. But in the meetings with the president, he was fully supportive. Would raise really good issues that would alert us to what we had to address. But it was sort of at this level up here, and the guy also sort of behind the president, saying, I agree with your political strategy. Let’s keep going this way.

The other thing about Gore is, because he is the way he is, and very intelligent and very on point and very committed to his policy positions, he just drives the Republicans up a wall. I mean, beyond belief. If you want to start a fire in the Senate, you send Gore up to give a press conference. And we’d do that occasionally, just to light a fire and piss them off, because he can really get under their skin. His role was constructive, but limited.

Then another thing that I found interesting was the way in which you talked about the negotiations that you were engaged with, with Domenici and Kasich. Then there was also this Clinton/Morris/Lott trifecta. Hoagland says you can’t really even say anything to Lott, because you knew it would go to Dick Morris, and you knew that would go to President Clinton. I’m wondering, do you have issues reining in President Clinton, or—

Well, let’s see. First, on Dick, Dick’s influence ebbed significantly after the election. He was really, in my opinion, important for the election, because I think his in the middle strategy, or triangulation or whatever you call it, was absolutely the right one. But his influence, when Erskine came in, he could still pick up the phone and talk to the president, and he’d call me about some goddamn thing that I’d have to deal with or whatever. But his dominant role in setting political strategy had completely evaporated at that point. Now, as for Clinton, he’s President of the United States, and he can pick up the phone and call anybody he wants, in my opinion. It was often a challenge, which Erskine mastered, to make sure we stayed attuned to everything that he was saying on the phone to, say, Lott or Gingrich or one of those guys. Clinton’s a good guy. He’s smart. Wanted to do the right thing. Respected his team. Very, very capable. It’s just he had a different role to play, but we did have to play catch-up sometimes, wondering what he was saying to somebody.

Okay. Another point is the midyear CBO budget, or incoming projections.

Yeah, that was a disaster in the making.
02-00:40:35
Meeker: It was a disaster in the making. Although, of course, CBO has this nonpartisan reputation, it was Republican-led at that point in time. I’m wondering if there was ever any suspicion that there was maybe some sort of Republican plot or something that was designed to upset this process.

02-00:40:55
Hilley: I don’t think so. I don’t think so out of CBO, because that’s just not the way I read it. I guess the thing that upset me was, it’s fine to publish their revisions in August. It’s another thing in, whenever they did it, in June, to say, hey, we’re going to let you know this now. Of course, the danger to that was that the whole deal would fall apart, because Democrats would say, why do we need to cut spending? The Republicans would say, hey, we can cut taxes. It would have been over. But to Newt’s credit, and to the president’s credit, we said, we’re going to hold to the pillars of this agreement and we’re going to blow by this thing. That was really, looking back, one of the most amazing twenty-four hours I’ve ever been through, which was to basically use all of the free money before anyone else knew about it.

02-00:41:48
Meeker: I think it happened just about this time, but one of the things that I see kind of as a transition point was—you provide an account of this meeting where Kasich gets on his hands and knees and pleads to Spratt and Lautenberg. Which seems interesting, because Kasich had political ambitions, right? He was even thinking about running for president in 2000. He also was one of these true believers, as you said. But by this point in time, he’s actually getting on his hands and knees and pleading. He’s now really transformed his own thinking that he’s going to be an advocate for this balanced budget agreement.

02-00:42:32
Hilley: It’s such a good point. It’s one of the most amazing, and hopefully repeatable in the future, transformations of seeing partisan guys—and we’d been at each other’s throats for a decade. To see the transformation from partisans to teammates was an astonishing thing.

02-00:42:58
Meeker: How does that happen? I know that that’s kind of the argument of your book, but maybe thinking about this individual who had everything going against making an agreement, from ideology to the politics.

02-00:43:10
Hilley: I think there’s so many things going on. There’s the personal level. As it gets built, you get vested in it. At the most high macro political level, what was going on was that every one of these guys involved in this had put enormous capital on the line on this issue and had gotten screwed. Clinton in ’93, Gingrich in ’95. They looked at each other and said, hey, you know what? We can actually do this together and take credit for this. The history of all the clashes and the realization that there’s a possible culmination here by working
together really gave the whole thing its impetus. We were lucky to be dealing with really good people, like the Hoaglands and the Domenicis and the good people on our side. But we were also lucky that we had the sense to keep the assholes out of the room. Oh, they say, “You’ve got to keep me informed.” So you can blow it up? Sure. You sit by your desk and wait for that call.

Meeker: I think that the impact of actually being able to balance the budget must have been an incredible enticement. A carrot that you wanted to chase.

Hilley: And notice how the two sides took credit. We each had our separate victory dances. In other words, that’s the politics of it. Even though we worked together to do it, we took credit separately in our own way.

Meeker: The balance, the surplus, comes the next year, but the plan was for it to happen by 2002, so for a five-year. At any time in this process, was it becoming apparent to the players that it was really right around the corner, that it wasn’t a five-year—

Hilley: Yes. We knew it and we were suppressing it.

Meeker: Really? Because I don’t know that that’s actually mentioned in the book.

Hilley: I don't know if it is explicitly as that. But yes. OMB was, as treasury does, everybody is cranking numbers every day. It was becoming apparent that we were going to severely overshoot the balanced budget goal, and therefore going to be balancing much, much earlier. Nobody knew it was going to be the next year. Of course, we suppressed that for the same reason that we spent all the CBO windfall. The OMB numbers, we just said, hey guys, keep your head down. Let’s get this done.

Just to go on, the great tragedy of the Clinton administration, and the Monica thing, was that we had the money. Before I left, we were having meetings already with Newt about, okay, how are we going to fix social security? How are we going to fix Medicare? Then when the Capitol went partisan again on his scandal, because they’re always looking to hang each other, that broke down that process. Of course, the players changed and everything like that. That is one of the great tragedies. That’s why my successor, Larry Stein, who is very capable, was totally excited about coming into my job, because he said, wow, we’ve got the money to fix this, and we’ve got Republicans talking to Democrats about fixing the two biggest budget problems. A historic opportunity lost. That’s what, on policy grounds, you can never forgive Bill Clinton for.
Meeker: That’s one of the arguments in this book *The Pact*. Have you come across this book?

Hilley: Oh, it’s Steve Gillon—out of Oklahoma?

Meeker: Yes.

Hilley: I interviewed with him for that. I tried to give him some insight.

Meeker: What do you think about that?

Hilley: The thesis? Not as much as he did. Of course, that was the book. Newt and the president had a good personal relationship. They’re Southerners, gregarious, sense of humor, survivors. Tough guys, at some level. Yeah, there was a real potential at that level for a lot of good things to happen.

Meeker: It’s interesting. I hear you being pretty critical of the president for his personal misdeeds that set the stage for this, but it might also be argued that the Republicans should take some credit, or blame, if you will, for making so much out of this, and looking at the president’s personal failings as opposed to addressing entitlement.

Hilley: Oh, sure. The story of this town is that the other side will hang you if you give them the rope. That should be tattooed on everybody who ever walks into this town. You just cannot give them the rope. But no, Clinton accomplished really good things, and he’s a good man, and he’s still doing good things. The White House was working on a really magnificent race relations initiative that Clinton was going to take the personal lead on in the last three years. We could have taken care of social security and Medicare. We could have used that money before W. got to it and bankrupted the nation, and actually settled the problems that are still yet to be dealt with. It’s a historical tragedy, I have to say.

Meeker: One of the things that you get in this book is all of the proposals that are offered that everyone knows are going to be dead on arrival. We offer this, but we know they’re going to say no to this. I’m wondering if you can explain the logic in this. Are they offered with the notion that that’s going to be the basis of some compromise, or is it just something that needs to be done to take up time as the calendar expires?
It’s all politics, to be honest with you. In other words, it’s the political year you’re in, and what you expect to happen. For instance, in our ’97 year, we were hoping for great things and had actually been crafting a budget proposal that we thought was a starting point for a negotiation. But in some years, all you’re doing is covering your ass, like sort of Obama’s budget this year. What he was trying to do is act fiscally responsible, although he got rightly deemed as a punter. But all he was trying to do is not raise a political flag that could hurt him in the upcoming election. If you noticed his latest thing he did in response to the Ryan budget, that was fundamentally nothing new, other than to point out to America that this Medicare proposal is really bad politically—is all he accomplished. Because the tax stuff on the rich, there’s nothing new there. It’s the same old adjustments on Medicare and discretionary spending. Tiny amounts on the defense budget. This is a political year. All that that was about is to say, we’re going to kick the shit out of you guys for proposing this Medicare thing. So each budget depends on the political context. That drives everything in this town.

There’s a phrase that you use, I think just once, in the book, but I really liked it. I thought it was interesting. It was about inventing a middle. Is that what it felt like, that there was actually a process whereby there was not a middle, that you actually had to create?

Well, yes. Our catchphrase, which is the same thing, was win-win. In other words, we, having been at this forever—this was the culmination of sixteen years of trying, basically—we knew everything that would send the other side off the deep end, so we wouldn’t have to fart around doing that stuff. But the whole technique of the negotiation was win-win. In other words, not, oh, woe is me, here’s what you guys are doing to me that’s giving me a good screw. Nobody wants to hear that. In fact, it makes them happy when you tell them what’s giving you a good screwing. So it’s all win-win. In other words, look it, here’s what you’re getting. Here’s what we’re getting. Here’s what we’re going to sell. This is the win we’re selling. All that stuff about the different baselines and the different accounting and the little sort of legerdemain that we had to go through, all that was to allow a presentation to the caucuses that was, you won. You both won. All the lists were, here’s what you win, here’s what you win. We all knew, from years of experience, what couldn’t be in the package, because everybody knew the really lethal stuff.

Well, we tried. Well, we didn’t try in COLAs. We tried on re-basing the consumer price index for the thing. That’s where Gephardt just killed us. He went out and leaked that that day, and sicked the AARP and the unions on us.
Oh well. So if you want to know why we’re all locked-up today—times ten today over what we had. But yeah, win-win, and invent the middle. The middle is about win-win, really. The reason there was a middle is because the large circumstance allowed it. Everybody wanted to win, and there were no taxes on the table, and we had done enough numbers work to know that we could actually find spending policies in the middle. It was done in a remarkably short period of time, as painful as it was.

Meeker: Your book is not the only book written on this. Daniel Palazzolo—have you read his book, *Done Deal*, I think it’s called?

Hilley: No. Is it about ’97?

Meeker: Yeah. He basically argues that this agreement shifted budget priorities in the Republican direction. He’s basically saying that you have a robust economy with increasing funds, yet there’s still tax cuts and spending cuts as part of this bill.

Hilley: I agree with that. Clearly. The revenue side was done by H.W. Bush, Clinton, and a growing economy. Like I said, there would not have been a deal, or even grounds for a deal, if we hadn’t said, we’re not raising taxes. Except the Republican demand that there be no new taxes. But the numbers were easy to make work. In other words, we didn’t have to do really any net crunch and hard cutting to get there. It was two hundred, nine hundred. It was $200 billion over five years, $900 billion over ten years of budget savings.

Meeker: Of cuts?

Hilley: Yeah, relative to baseline. Those were still kind of cuts that even more are going to be needed today to deal with the problems.

Meeker: In other words, among the Democratic caucus, it didn’t feel like those cuts were unpalatable?

Hilley: Oh, absolutely not. No. The major cuts were out of Medicare, and those are the kinds of things that, unfortunately, for better or worse, however you view it, we’re going to have to do more of. So no. Like I said, we went off at 80 percent in both caucuses. There was very little to scream about. We did manage to protect domestic discretionary. The priorities that Democrats wanted. Not full base line in increases, but increases above current law.
Meeker: I know that you leave in the beginning of ’98, but in ’98, there’s no budget resolution. I’m wondering what falls apart in the last bit of the Clinton administration? Because you start to have a loss of budget discipline.

Hilley: There were certainly no more agreements, because I think we’d reached the culmination of that process, because we’d all declared victory. And we had put in an enforcement mechanism that gave us the surpluses we wanted. Like I say, the tragedy was that we didn’t carry on. Even if I had stayed, we wouldn’t have been able to, because ’98 was all about scandals. Then you’re on your way to the next election if you lose that opportunity. Presidencies run out of steam also.

Meeker: Was there a discussion from the legislative point of view of trying to re-up the PAYGO rules on a statutory level?

Hilley: I don't know. I was gone at that time. If I had it all to do over again, that’s the one thing I would have been much more careful about. Or if Al Gore would have gotten elected, we’d have been okay.

Meeker: There was a five-year window, right? So I guess by ’98, the horizon starts to disappear.

Hilley: The Bush tax cuts were—well, never say never. They’ll vote for anything. The Bush tax cuts were enabled much more easily by the lack of discipline. The only thing standing in its way was the Byrd Rule, which they then sunset the tax cuts, and we’re still living with that.

Hilley: We should spend a minute talking about where we are today and going forward, I think, a little. But go ahead.

Meeker: We have a series of questions looking at debt and deficits overall as an issue. We’ve noticed that most writing on this, historically, has been from the economist’s point of view. Somewhat from the political point of view. I think, actually, your book melds those rather nicely together. But there’s also a symbolic, culturalist point of view. For instance, do you think that the concerns about the U.S. fiscal position and chronic deficits and mounting national debt, this sort of broad cultural concern about it, are really justified?
Hilley: I have mixed things about this. What you have to realize is that we can’t go on like this indefinitely. We’re running down the bank here very quickly in terms of our reserve currency status, our credit rating, and our borrowing ability, and all of those things. We’re sort of pissing all that away. That must come to an end at some point, in some sort of unhappy event. Either rising interest rates, or a currency crash, or a severe recession, or a collapse of the banking system. The facts of reality: no matter how rich and powerful you are, you just can’t go for decades and decades without hurting yourself. The problem is, though, and this is the political problem that we’re facing right now, the Republican Party is not really about fiscal order as much as they are about spending, which I’ve already addressed. They’re out to almost break the government. In other words, to enervate in a way that weakens it severely because of their ideology. The regular, middle-of-the-road, go to work everyday, good family person person, I don’t think they get it at all. In other words, the reason you see Obama and the Republicans both not doing anything substantial this year is because they’re absolutely politically scared to death to do it. Democrats have told people for decades that you can have every frickin’ program in the world. Republicans have now told you for three decades that you don’t ever have to pay any more taxes. Like I say, I do not fault our representatives for what’s wrong with the country. Maybe they indoctrinated people into these set of false beliefs, but what’s wrong with the country is Americans. It’s easy for me to say, because I’m very comfortable in life, but we as Americans have not yet awakened to the reality that this is really not about the few wealthy. I can irritate people very quickly by saying I’m really happy to pay taxes. But it’s really about the middle class. It’s about middle class entitlements. It’s about tax rates for middle class. The hard nut that has yet to be broached, because each one is still preaching its ideology, and the Republican ideology has become very, very virulent in the direction of anti-government. It’s not a matter of making government work better within its means. It’s something even more virulent, which is because of just the enormous multiple layers of stress that our economy and our culture are in right now. [A portion of this interview has been sealed until December 2012.]

Meeker: There’s something brewing called SAVEGO. Have you heard of this?

Hilley: No. What is it?

Meeker: I guess it’s something that both Hoagland and Minarik are working on. Supposedly, they’re maybe going to have something in Bloomberg today or tomorrow about this.

Hilley: I have a new budget process. I’ve offered it a few places. It’s not the big deal. What’s wrong with Congress is the only thing they know how to do is cut
taxes or spend money. That’s because of the pressure of politics. You do not get reelected for raising people’s taxes and cutting their spending. What my thing does is it has an automatic, very broad-based—not like the Darman sequester—but a broad-based way of making money, sort of automatic revenue generation, and spending cuts every year. Then they get to spend 80 percent of that. Which is how you reallocate resources to do what the country wants. At the same time, you’re keeping the lid on. Something’s going to have to happen along this line. I’d be interested to see Bill’s thing.

03-00:07:29
Meeker: It seems like there are a number of quarters who are actually trying to work on a reasonable, process-oriented solution.

03-00:07:36
Hilley: That’s all important, and that’s why I did one of my own, but the numbers are so imposing now that they’re going to have to sit down and say, look, we have to do something on these major components of the budget. Like I said, it can be done. Americans have been sold a bill of goods about the greatness of our country and what we can afford to do. Unfortunately, America usually waits for a crisis for that revelation to take hold. We’re very good on the response then, but why do that?

03-00:08:07
Meeker: I want to end by asking you a sort of periodization question. Was the debt crisis solved in the late 1990s, or is what we’re experiencing today sort of a continuation of what was begun in the 1980s?

03-00:08:28
Hilley: Well, we actually had solved it, in the narrow sense. But the point I was referring to earlier, which is, for three decades, we’ve been told that we can have it all ways, basically is what leads to—in government and in life, nothing is ever final in terms of someone undoing your good work. It was a really great accomplishment. Again, the capstone. The hard crunching was done before that. What worries me about the Tea Party people, and I understand why they act this way, is that the elements—in fact, I think it’s even gotten worse than just a debt problem that’s specific to a country that’s living off of an inherited wealth and an inherited greatness. This country is as stressed out as I’ve ever seen it culturally, which is single parents, dysfunctions in the cities, immigration, job loss, a banking system that people feel is ripping them off. When you look at the stresses on our economy now, it’s no wonder that people turn to their lesser side in trying to deal with many of the problems that confront us. Unfortunately, not only are we culturally unprepared for the big fix that puts us on a stable path for the long run, but we’re sort of off on a really very destructive tangent right now, as depicted in the House of Representatives. That’s why I say nothing is going to happen until we get some equilibrium back. Obama, I hope, can do something next time, but will that solve the long-term problem? I don’t know.
Meeker: You had mentioned you wanted to comment some on the contemporary situation, and maybe the way to talk about that is to get your thoughts on the various proposals that have come out. The Domenici-Rivlin and the fiscal commission report.

Hilley: I thought they were both good. I love Erskine, but he shouldn’t have been surprised that everybody walked away from it. He and Simpson could not get the votes of their own committee. If they had come out of there with fourteen votes, I’d have said, great. The two politicians who went for it—politicians find it very easy to vote no when they know nothing is going to happen. That’s just part of the ritual. I thought the Rivlin-Domenici was very, very sensible. Alice, I think, is great. That proposal is as sensible as it is dead on arrival, because the Republicans are very afraid of any kind of value-added or consumption tax, as sensible as it would be.

Meeker: Aren’t Democrats concerned about a more broad-based tax base as well?

Hilley: Not so much. They’ll write in all the exemptions they need for the lower income. Everyone will sort of agree to that. It’s tough right now. The Tea Party are very resentful about them being in economic stress. Why am I my brother’s keeper at this point, is really what it comes down to. As you get wealthier, you can afford to be better. We’re at a very bad time right now, I’d say. We’ll keep hope alive.

[End of Interview]