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Meeker: Today is the eighth of February, 2011. This is Martin Meeker interviewing William Hoagland. Let me start out by asking you a little bit about the period of time that you were on staff in the Congressional Budget Office. In particular, because you were there, basically, from the very beginning, I’m interested in the establishment of the office, and its establishment as an office that was going to last for a period of time, vis-à-vis the committees in congress that already existed—the appropriations committees and the taxation committees. Based on the understanding from other interviews that we’ve gleaned, it wasn’t necessarily an easy process for the Congressional Budget Office to establish itself. There was even one former director who suggested that many members of congress were not entirely clear on what the Congressional Budget Office would be. They saw it as an arm of one of the established committees, not something that was going to be non-partisan or relatively independent. So from your vantage point of being there from early on, I wonder if you could give me a sense of how it was that it established itself so that has been able to last so many years.

Hoagland: I came to the Congressional Budget Office, basically, as my first real job in this town. I was a young economist in the Department of Agriculture. This will give you some sense as to how the new CBO director was organizing. I had done my graduate work in the field of agricultural economics, of all things, and specifically on the food consumption side. To make a long story short, I had developed a model for projecting the federal Food Stamp program, in my graduate work, and was hired by the Department of Agriculture because it was a new program at the time. One day the phone rang, and it was Alice Rivlin. I knew the name, but I didn’t realize what it was all about. She said she was establishing this new office on Capitol Hill and understood that I had some knowledge about how to make projections of a particularly important program. She was coming from Brookings, the academic side of the equation, and she said, “What I want is both academics, theoretical people, but I also want people who have a practical experience in the application of these programs.” So a mix was her goal, to make the organization relevant. I guess I came from the application side of the equation, not coming from Brookings or any of the think tanks or coming out of universities. So the early structure of the Congressional Budget Office was a mix of these people. She was very thoughtful about it, in the sense that she knew right then, 1975, ’76, that there was an upcoming reauthorization required for the Farm Bill. And a major title in the Farm Bill was the federal food programs. So she was preparing to be able to provide Congress with that kind of expertise or knowledge, in terms of the legislation. So my involvement came from that side, and eventually rolled up into bigger issues, income security, and broadened out. So we had organizations that were projection
groups, we had organizations within CBO that were responsible for the long-term think pieces. I was walking between the two lines and I was working in both areas of writing some of the early papers on these income security programs, the projections going out into the future—not just food stamps, but then at that time, all of the income security programs.

Meeker: Examples of those would be unemployment insurance or—

01-00:04:57

Hoagland: Medicaid, Medicare, Social Security. I guess we did have the earned income tax credit at that time, it was called the AFDC [Aid to Families with Dependent Children] program, instead of the Temporary Assistance [for Needy Families] program. So it was the income security side of the equation. So I’m new to the hill and I’m learning the hill and learning our relationship to the two budget committees—the Senate Budget Committee and the House Budget Committee. Senator [Edmund] Muskie was the chairman of the Senate Budget Committee at that time. Congressman Ulman was the first chairman of the House Budget Committee. What I learned very early on was that really, our clientele were those two budget committees, more than anybody else, to provide them with the information as they put together their budget resolutions and did their think pieces. I recognized later also that we never do away with anything; and the Congressional Budget and Impoundment Control Act didn’t do away with any committees, and that it simply layered these two new committees on top of it. I think that yes, there was an early period there where, as an example, we were in the Ford Office Building, in fact, even earlier, when I first joined them, they were in a little hotel on Capitol Hill that was torn down, and we moved over to the Ford Office Building. I’m not even sure it was named the Ford Office Building at the time. I think it was an old FBI building. It was like a warehouse. There were no walls, there wasn’t anything; there were just desks. So I was there very early. That grew, of course, and certainly is a much nicer place today, in terms of physical location or physical setting.

But what I realized was that a committee, one committee in particular, the Joint Tax Committee, jealously guarded its responsibilities; and to this day, that still exists, that they felt that they were the ones who had direct responsibility for making the projections and estimates related to revenues. Further down the road, I should say that one of my suggested reforms has always been to take the Joint Tax Committee and remove them from their basically reporting to the two tax committees, the Finance Committee and Ways and Means, and make them an integral part of CBO. You quickly find out that immediately, the very powerful—which have always been powerful—the Ways and Means and the Finance Committees: we want control over those and we don’t want CBO. We worked out a relationship between that committee and CBO, by having their estimates feed into CBO, in terms of their projections going forward.
Meeker: So the understanding of the Joint Tax Committee, or Joint Committee on Taxation or however it’s said, is they were providing projections on revenue, where you at the CBO were providing—

Hoagland: Primarily on the spending side.

Meeker: On the spending side, okay.

Hoagland: To this day, the Joint Tax Committee makes most of the estimates as to changes in the tax law. Now, they feed it into CBO and CBO controls, of course, the overall economic forecast, so they make sure it’s consistent with their forecast. But it just goes to show how even on something like this, that it’s not clean; there still is this interaction. So the two very, very powerful committees on Capitol Hill—the appropriation committees and the tax writing committees—still jealously guarded their areas against the two budget committees. Those early years, 1975 all the way up until 1980, basically, CBO was a big accounting firm, in the sense that it aggregated up, provided the information, in terms of their projections and their aggregations; but I don’t think they were that influential, in terms of directing policy. It was basically information. It was a good source of data and information for the congress to be able to see what the right hand and the left had were doing. I think initially, that was one of the real goals of the Congressional Budget and Impoundment Control Act, was to get some consistency between what was going on on the spending, the revenue, and how it all fit together.

Meeker: And not necessarily have to rely upon the figures of the OMB.

Hoagland: Absolutely. In fact, the whole theory, of course, was this was the Congress’ own OMB, that would be politically exempt from politics and would be independent of administrations. Now again, there’s a lot of interaction, but to this day, they’ve maintained that. Getting off of CBO here and going on to the other things you want to talk about, I would say as I look back over the history, that there will be people who will argue today that we can do away with the two budget committees, but we can’t do away with CBO. It was not always clear that the Congressional Budget and Impoundment Control Act would survive. Previous attempts at this in the forties and even earlier didn’t survive. So there was really a question as to whether this whole process was going to make it through. Right now, thirty-some years later, there are some real threats to the process itself, as it was originally envisioned back with the passage of the legislation. I ended up working very closely with the budget committees as they were preparing their estimates and then also working with the agriculture committees, so that is how my interactions broadened out. The technicians or the analysts at CBO were supposed to be independent. I always jealously guarded my independence as not having a partisan affiliation. I think the directors over the years, while they all have had their own political stripes
generally, they have attempted to keep the agency non-partisan and provide the best information they can. Under the circumstances, it’s very difficult, of course, to make these estimates. It’s always very difficult to tell congress that this is expensive or you didn’t pay for it or something of that nature. But they have survived and I think they will continue to survive.

Meeker: So in your Senate Historical Office interview, you had mentioned that the majority of work you did was analytical work, as you just mentioned here; but you also said that there was some policy work that you were doing. I’m wondering if you can sort of give me an example of that type of work.

Hoagland: Well, one of the early policy issues that we were dealing with—in fact, it came about in the 1977, 1978 timeframe—was something called the purchase requirement for the food stamp program. The issue was that depending upon your income, you were eligible maybe for $100 worth of food stamps for the month. But to make sure that you were purchasing a food that people thought was what was necessary to maintain an adequate diet, you were supposed to spend $200. But the subsidy was $100. So you had to lay down $100 to get $200 in food stamps. Out of your pocket, you put $100 down and you were given $200 worth of food stamps, making sure that you then spent $200 on food.

Meeker: In order to purchase adequate number of calories.

Hoagland: Right. The issue was, why don’t we just give them the $100 and not require them to buy this other $100 of food stamps. It was called the elimination of the purchase requirement, EPR. And it was very controversial, because there were those who felt, particularly in the agriculture community, that if you only gave them $100 and they didn’t have $200, that they wouldn’t spend that additional $100 on food. So one of my policy roles early on was to go through and make some estimates as to what would be the impact upon participation, number one. Because the fact that you had to maybe, in some cases, put up $10 to get $200, that was easy; people would put $10 down for $200 worth of stamps. But for those people who would have to put down $150 to get $50 worth of subsidies, it wasn’t exactly clear that they wanted to go through that exercise. So the whole issue was participation in the program. If you only gave them the subsidy and not the total amount, would food consumption, would their diets be hurt by this? I went through some studies. One of the early analytical policy studies that I issued concluded that elimination of the purchase requirement would not have a negative effect upon participation or diets out there. We did eliminate the purchase requirement, so I guess it did have some impact on policy.
Meeker: I’m interested in the sort of nuts and bolts of some of these studies that were done. Was this largely a theoretical economic modeling study? Or was there actual fieldwork that was done, determining what their threshold was?

01-00:16:14
Hoagland: Well, mostly theoretical. Most of the work that CBO does is not really fieldwork; it’s based upon secondary data, whether it’s the CPS data or actual data that has been accumulated through the agencies. In my case, it was secondary data that we were working with. We were not going out in the field.

Meeker: So CBO doesn’t employ a whole stable of quantitative sociologists, for instance.

01-00:16:39
Hoagland: No. No. No, not at all. [chuckles] Not at all. In fact, I go back and I look at that first study; it looks pretty crude, really, relative to the products that were being produced. This was early on. Simulations were just coming into place, with these huge computers up on the top floor of CBO. We had to carry our IBM cards up there. This is really probably before your time. It really was very early, in terms of the analytic—but it was the start. And then came the microsimulation models; and a lot of the models that are even used today are just refinements on those models, using CPS data.

Meeker: When you’re making research-based policy recommendations, the degree to which, for instance, you and the office are shielded from perhaps the negative consequences of those. So for instance, the agricultural industry maybe was not pleased with the recommendations that were made and then the ultimate legislation that was made. Is there a sort of a firewall? Is it the legislators that are a firewall between you and lobbyists, for instance, and the CBO?

01-00:18:02
Hoagland: Well, pretty much, pretty isolated from the advocacy work outside. I will say that when interacting with the committees of jurisdiction at this particular time—it was the Senate Agriculture and the House Agriculture Committee—those analysts, or those staffers that worked for Chairman [Tom] Foley on the Agriculture Committee—Senator [Herman] Talmadge was the chairman of the Senate Agriculture Committee. Those chiefs of staff that worked for them, we tried to maintain our relationships, so we would interact with them. To the extent that there is advocacy coming in trying to influence the policy outcome, it basically came from those people who were being influenced by the ag lobby or the dairy lobby or whatever. But directly upon the CBO analysts, no. I don’t know if that’s changed. I doubt if it’s changed, because jealously guarding that independence is something that I think keeps CBO’s reputation above criticism. I don’t know if he’s on your interview list or not, but Robert Greenstein, with the Center for Budget and Policy Analysis today, he was influencing the agriculture committees. To this day, he’s still up there. Wendell Primus, who is minority leader [Nancy] Pelosi’s head person, worked on the Agriculture Committee, and he and I interacted a lot. So there was
some impact coming from, if you think of them as advocates, but it was more information: Have you looked at this? Do you have this data set or that? But I can’t say at all that they influenced the outcome of our analysis.

Meeker: So looking to the economic history of the 1970s, the main story is one of inflation. I think that economic historians tend to agree on that. Projections and scoring of legislation, in relation to budgetary consequences, is always a difficult task.

01-00:20:50
Hoagland: Absolutely.

Meeker: In the 1970s, I imagine it would’ve been even more fraught, given the extreme levels of inflation and the uncertainty about the degree to which that would continue or subside. I’m wondering if you can give me a sense of maybe the directives you were receiving from the leadership at the CBO, about how inflation was to be dealt with in the projections that you were developing.

01-00:21:25
Hoagland: In fairness, Martin, I can’t say that aggregate inflation at that time, driven a lot, as I recall, by energy prices—but food prices, also; a little prior to, I guess, the early seventies, we went through a food price scare. The macroeconomic forecasters in CBO, I didn’t get involved with their projections. They produced the projections; that fed into my model, in terms of, okay, what are you assuming about food prices? So I don’t think that I can address your question adequately because it was an input variable that I received from the macro group, and I don’t know how Alice, or Bob Reischauer at that time, what they had to say, dealing with that issue. Bill Beeman was the fiscal policy chief economist over there at the time. Even I think just recently leaving, is Bob Dennis, who was also one of the early employees of CBO. If you’re pursuing this further, they would be the ones to talk to about what kind of impact that period of time had on our ability to make projections or how they projected.

Meeker: Well, sure. That’s helpful, insofar as it’s helping us conceptualize the way in which work was done at the CBO.

01-00:23:24
Hoagland: Yeah, it was separate.

Meeker: So, as a specialist in agriculture—and I imagine you had colleagues who were specialists in other parts of the budget—you would receive, in essence, objectives from the macroeconomic group.

01-00:23:37
Hoagland: The broad macroeconomic forecast—GDP, inflation, unemployment. A major factor driving my estimates and my ability to feed into the policy decision was the unemployment rate. Looking back on it, it wasn’t a very sophisticated
model, and it was driven by unemployment. So big deal. What do you expect? But I didn’t make those projections; that fed into my model.

Meeker: Well, let’s move on to your period at the Senate Budget Committee. And I know that there was a year or two that you were at the FDA, correct?

Hoagland: FNS, the Food and Nutrition Service. For whatever it’s worth, that agency, that I had been hired out of in 1974 to go to CBO. It’s still in existence today; it’s called the Food and Nutrition Service, FNS. That is the federal agency that has responsibility for all our federal food programs, commodity programs, child nutrition, school lunch and all those programs. In 1980, when Ronald Reagan won, one of those people on the Agriculture Committee made a recommendation, I guess to the administration, that there’s somebody up there at CBO that understands these programs, and you might want him to consider running these programs. So very young, probably green behind the ears, and running the largest agency within the Department of Agriculture, I left CBO and became the administrator of the Food and Nutrition Service. Some controversial issues there. Part of it has to do with the budget process. Toward the end of 1980, the deficit was growing to a grand total of about $75 billion. The good old days.

Ronald Reagan was making such a big deal out of it on the campaign trail, and Jimmy Carter, in order to respond—and the Democratically controlled congress said they had to do something. So while I was still at CBO, at the end of the 1980s, we did the first reconciliation bill. Senator [Pete] Domenici doesn’t like me to make that point. He likes to think that he invented reconciliation, but that’s not true. There was a small provision that was adopted in 1980 for the ’81 year.

Meeker: The famous reconciliation, of course, comes the next year.

Hoagland: In the next year. This was a very small one. I think the total amount of deficit reduction might’ve been in the neighborhood of one year, maybe $10-, $15 billion. But it was a symbol that the Democrats wanted to say, look, we’re concerned about the deficits, too. But one of the major provisions of that reconciliation bill was changing the reimbursement rate for the school lunch program for the non-needy child, reducing it by, I seem to recall, 2½ cents. So here I am, as a CBO analyst, I’m making the projections for this reconciliation bill. Then the next thing I know, I’m at the agency, having to administer the cuts that had been adopted in that reconciliation bill. Out of that came a year in which I spent a lot of time working with—this is the infamous ketchup-is-a-vegetable story, where I went out and, as the new administrator, tried to say, okay, school food service administrators, we’re going to have to reduce your subsidies by 2½ cents. That’s what the law says; we’ve got to implement this. In fact, I remember going to California, San Francisco, where the school food
administrators told me, or some of the people said, well, listen, we don’t like
the cuts. Nobody ever likes cuts. But if you do that, give us some flexibility.
We have a number of Asian students, and they like tofu. Let’s substitute tofu
for the meat product. I said fine. I’m not, at that time, a tofu fan; I didn’t
know. Fine, I didn’t have any problems. So long as you met the protein
requirement, go ahead. Similarly, there was at this time, a movement to have
yogurt in the school lunch program. I like yogurt, it didn’t bother me, so sure.
Why don’t we give them yogurt? Well, so we did yogurt, too. We changed the
regulations.

But in that process of putting out—so that they could take the 2½-cent cut and
have some flexibility, I thought that was the way to go. Except in the process
of issuing those regulations, there became an issue that to this day, still bugs
me—but that’s okay—that somebody who didn’t like the cuts, particularly—
well, I’ll say the hunger advocacy groups—found enough in the regulations to
claim that we were letting condiments substitute for vegetables and ketchup
becomes a vegetable. That was also driven, in some ways, by this wonderful
town of all the various advocacies here. The American Meat Association said
they want people to eat red meat; they don’t want them to eat tofu. They kind
of got behind the scenes. The American Dairy Association, too. To this day,
it’s unbelievable—the way we price milk in this country and set price supports
for milk is based upon fat content. Well, yogurt’s low fat. That didn’t help the
Dairy Association. What they really liked was whole milk. Then it didn’t help
matters to have Nancy Reagan buy a bunch of expensive china for the White
House. All this fed into a big blow-up internally. The regulations were out and
they were getting all this. I remember going home late one night; my wife
said, “You’re finished.” And I said, “Why do you say that?” This is probably
before your time, too. She said, “Because Johnny Carson is talking about
ketchup as a vegetable in his monologue, and when Johnny Carson is doing
that at night, it’s got out of hand.” Sure enough, I was relieved of my position
as the administrator and stayed a little bit longer at USD, in a special assistant
role, to the secretary. But then Senator [Robert] Dole, who I’d known because
he’d been on the Agriculture Committee, asked me to come back to the hill.
He said that Senator Domenici needs somebody to deal with agriculture
issues. That brought me back to the hill, in ’82, after the big ’81 reconciliation
bill that I worked on, the ’82 and from that point on.

Meeker: It’s a remarkable story. So when did this ketchup-gate happen?

01:00:31:38

Hoagland: August, ’81. About the time he was signing, up there in a fog-shrouded
mountain in California, the ’81 reconciliation bill. There was an ’80
reconciliation bill, which Jimmy Carter signed, but that was in, I think,
October of 1980.

Meeker: It’s been impressed upon us by a couple of people that we’ve interviewed,
how remarkable it is for a new major committee in both houses of congress, to
be established—the Senate Budget Committee and House Budget Committee. As you’ve said, it didn’t replace other committees; it was layered on top of the spending and taxation committees that already existed. I’m wondering if you can give me a sense of what the status of the Senate Budget Committee was when you arrived there. Was it still struggling to establish itself? Or was the leadership on different sides of the aisle so prominent of the committee at that point in time, that it had already well established itself by the time you arrived?

Hoagland: Well, as I said, I think from ’75 until about 1980, the budget committees were pretty much accounting. They were taking the CBO recommendations and they were adding it up. It wasn’t really forcing decisions. I think what really brought the budget committees into the forefront was maybe that little reconciliation bill under Jimmy Carter. But really what happened was, when Ronald Reagan came in and David Stockman, a Michigan congressman who then became OMB director, who said, “You’ve made these promises you’re going to reduce the deficit, you’re going to cut spending and cut taxes. How are you going to do it?” I think what really brought the budget committees into the forefront, particularly as it relates to the Senate, was the new leadership in the Senate, under Howard Baker and, I will say, my boss for many, many years—and to this day, we’re still very, very close—and that’s Senator Domenici. I’m trying to think who else was involved. Senator Dole, Senator [Mark] Hatfield. These were all new Republican chairmen, who had never been chairmen, and they’re thrown into these jobs and, holy cow, what are we doing here? They were looking for a way to implement the president’s agenda as best they could. Out of that, came this theory that we can use this new budget process, that really hadn’t been used to that point, to effectuate the policy outcomes that the administration and Republicans wanted. In the House, still controlled by Democrats, but we had [Delbert] Latta, a conservative Democrat. Phil Gramm, I believe, was in the House at that time.

Meeker: Yes. Conservative Democrat.

Hoagland: Democrat at that time. So you had the ability to see a way in which you could use this new process, working with the conservative Democrats, moderate Democrats, to basically accomplish the goals that had been set out during the campaign. That’s when the budget committees really became important players, because now they would use that reconciliation process to force legislation that otherwise would’ve run into the filibuster in the United States Senate. I think that’s when you really see the budget committees coming into the forefront. Now, I arrived in ’82; ’81 had already come and passed, so I can’t comment on that. And when I arrived, first of all, they were tired. Seems like we were always tired, on the Budget Committee. But it was working our way through how to use this new—at that time, relatively new, six-year-old—Budget Act to carry out policies and effectuate those policies. When I got
there in ’82, we were just working, also on the next reconciliation, which was the deficit wasn’t coming down. So we came back and we had another round at it, in terms of not just spending, but also tax increases, which most people forget, that Ronald Reagan raised taxes, too. Now, he had to be forced into it, but that’s the Doles and Domenicis and the Bakers of the world saying, now, we have to do this in a balanced way. Which, in a sidebar, it’s not the way it is today; and that’s, to me, a little bit sad.

Meeker: Well, given that you weren’t working for the Budget Committee in ’81, maybe based on your subsequent experience working there, or from what you’ve heard of people who were there at the time, it seems to me this was, perhaps, a rather risky salvo of doing reconciliation in such a massive way, and that it conceivably could have backfired.

Hoagland: It could have. And in fact, one very small technical issue was that the whole process has evolved, in terms of the use of reconciliation. But number one was, it was not to be used—and it was not used—people forget this—it was not used to cut taxes. When people talk about the tax cut bill, Ronald Reagan signed two bills on that hill; one of them was a reconciliation bill and the other one was the tax bill. The tax cut was not a reconciliation bill; people forget that. So the first thing is, we were not using reconciliation for the purposes of worsening the deficit, cutting taxes, that has evolved. More importantly, that first 1981 reconciliation bill—this is where it has evolved; and I don’t want to get too far in the weeds here—was very complicated, in the sense that we were reconciling authorization here. Why is that important? Because the only way you really control spending for authorized programs, separate and apart from entitlement programs, like changing the reimbursement rate for a school lunch program or changing the Social Security rate for all the other 30% of the federal budget today, which is annually appropriated. It’s the appropriations, it’s not the authorization for appropriations. But we were reconciling authorizations and forcing the authorizations down, thinking that if we lowered the authorization, the appropriations would have to follow suit. It was extremely messy. In fact, I think the first general counsel at the Budget Committee lost her job over how messy that was. She thought we could reconcile authorizations.

Eventually, this evolved into simply, if you like, reconciling taxes and mandatory spending, plus then some way of setting limits on the appropriation process. In other words, the authorizers could do whatever they wanted to. That, unfortunately, is what happens today. They authorize a lot to be spent, such as some things that are in this health care bill; but that’s not where the real spending is. Spending takes place over here, when the money’s actually appropriated. So we gave up on the reconciliation of authorizations, and eventually evolved into what we have today.
Meeker: This is interesting; I’ve never heard this particular account before. So the move that was made to reconcile through authorizations as opposed to appropriations, you said that we moved beyond that or moved away from that because it was a messy and complicated process, and perhaps someone lost a job over it. What was the process by which the congress moved away from that particular methodology?

01-00:40:25 Hoagland: Yeah. I think what happened was that when we started on the next round, after 1981 but in 1982—which, as I say, I was kind of coming in toward the period—what we were moving toward was to set limits on appropriations, and you could authorize whatever you wanted. So really, here we go again. This is interesting, the way you’ve got me to this point. The committees that were most worried about the budget process were the Ways and Means, tax writing, basically entitlement committees, and the appropriation committees. And what we ended up doing, to this day, well, we basically ignore the authorization process, pretty much, and leave it to budget committees. We are really dealing with those two very powerful committees, appropriations and the Senate Finance Committee, because that’s where the bulk of spending is actually controlled. Now, that’s not entirely true. As an example, the Agriculture Committee does have entitlement spending, under the farm programs, or the Veterans Committee does have some direct entitlement. But Social Security, Medicare, Medicaid, the welfare programs, all that, are in that Ways and Means and Finance. So I think it was just a natural evolution that if this is a fiscal policy committee, the Budget Committee, you’re going to have to go—as you know, the old saw—you go where the money is. That’s where the money was, the Appropriations and Ways and Means and Finance.

Meeker: So it wasn’t a particular legislative change that ended reconciliation through authorization?

01-00:42:20 Hoagland: No. No. It was the inability, quite frankly, to actually implement it. As I say, even if you had reconciled authorizations, that didn’t necessarily translate into a reduction in appropriations for those authorizations. The famous words that we always said would go on a tombstone of an appropriator was, not withstanding any other provision of law. Which means you can authorize it, but we’re going spend whatever we want. They can get in trouble. There are some rules and there are some points of order; but for all practical purposes, it’s the appropriation that really carries out the programs that are authorized.

Meeker: Again, I know that you weren’t there at the time, so I feel a little guilty about asking this question. But the ’81 OBRA-ERTA—OBRA stands for reconciliation, and, as you said, the tax cut, ERTA, was not: I don’t know if I want to challenge you on that, but I’m curious about is that distinction really important? Because wasn’t the reconciliation necessary at first order.
Hoagland: To get the agreement to do the tax cut? You’re right. I’ll be fair. I’m splitting hairs here. I want to make it very clear, because it did change over time, that the tax cuts in 1981 were done what I would consider under regular order. That could’ve been filibustered. It didn’t necessarily come through the reconciliation process. I agree with you that probably when you’re putting the budget resolution together and you’re talking about tax cuts and spending cuts, in the whole thing, they look like they’re associate. It’s just a procedural point that I’m making, is that we did the spending cuts through reconciliation and the tax cuts were done through the normal process. Now, quite frankly, what self-respecting member of congress won’t vote for a tax cut. You don’t have to worry about a filibuster anyway. So maybe it’s a distinction. The reason why it’s important to me is that much later on, when we were running surpluses, there was a reconciliation bill to cut taxes. Under the normal, quote, “scoring process,” that adds to the deficit. One of the things that always bothered me—and I know bothered a number of the parliamentarians—was we never used reconciliation to worsen a deficit. Now, my only argument at that time was we weren’t worsening a deficit, we were lessening a surplus.

Meeker: So that was 2001?


Meeker: Yes. Bush forty-three.

Hoagland: Forty-three, right.

Meeker: All right. We could linger on this for a long period of time, because I think that this transformation that happens in Washington, 1980-81, is so profound.

Hoagland: It’s key.

Meeker: I’m wondering if you could comment on the change of politics and culture in the capitol at that point in time. Here we are at Reagan’s hundredth birthday. People describe it as a revolution. Did it feel like that at the time?

Hoagland: No, it didn’t to me. It didn’t to me. I’ve heard some of the conservatives—George Will and others—say, but we’re all Reaganites now. I can tell you, my wife doesn’t feel that way. It was a time which, as I recall, was exciting. Even though there were some difficulties: we’d gone through a recession there. At least my experience at the time was that there was give and take. And literally recall that markup—I don’t know if it was ’82, ’83, one of those markups—we were putting out a budget resolution that reduced defense spending. Well, the phone rang in the cloakroom and I had to go back and take it. It was the President of the United States. He wanted to talk to Pete [Domenici] before
the vote because he didn’t like it. Domenici went back in the cloakroom and told the president, “I’m sorry, Mr. President. We’re going to vote and we’re going to reduce defense spending because we’re concerned about the deficit.” So it was a time when even Republicans would stand up—some Republicans would stand up—to the president. The president was fine. He made his point; he lost. But it was civil. I don’t mean to be critical of the media or anything, but over this period of time, we moved into 24/7 news, talk shows, everything. You just don’t get the same sense that members are willing to—that they’re all driven by these outside sources, not focusing on policy, as I would like them to. Also—and I didn’t really experience that until, literally, coming down here [Association of America’s Health Plans]—is the amount of money that’s involved. Fax machines that run round-the-clock, emails that are continually coming-in, this fundraiser, that fundraiser. As an example, this company has a small PAC—we’re not very big—and, of course, made contributions last year. Now, comes January, I said, “Great. Now I don’t have to worry about that.” Early January. In fact, we’re raising money again. Or people are asking for money again. I thought, gee, I have to go back into this again. So there’s been a lot of evolution. Outside influencing of policy that I guess as an old-timer, I think, has not necessarily benefited policy. Maybe I’m old-fashioned about it. Democracy’s great, information’s great, but we’re inundated with so many—paralysis by analysis, I guess, is the best way I can describe it. Anybody who has a blog or has a website can get their message out. I guess that’s fine; that’s democracy. But it makes it a lot more difficult to make decisions and policy. I’ve gone on; I’m sorry.

Meeker: Well, it’s an interesting point, and this is actually an issue that’s of great interest to us in this program. When we originally formulated this project, we wanted to do a year on debt and deficits and then we would sort of segue over to gridlock. What we’re discovering is that it’s kind of impossible to pull the two apart.

Hoagland: That’s right.

Meeker: This is maybe running outside of the timeline here, but this is kind of a question that has kind of been running around my head as I talk to people who have been working in Washington for many years and have had a chance to see the change. I know that you’ve been described, was it by Trent Lott or somebody, as a raging moderate or something like that. I think it’s interesting because certainly, the rise of the lobbyist industry is not attributable, in what I can tell, simply to Democrats or Republicans.

Hoagland: No.
Meeker: It’s across the board. But there might be an argument made for the sort of increasingly loud and angry sort of talk shows and television news as more the domain of the right wing in the United States.

Hoagland: Yeah.

Meeker: I guess I’m wondering, as someone who might be considered a moderate Republican and have worked for Domenici, who himself was—

Hoagland: Early on, yeah.

Meeker: —a moderate Republican, in general, if there was ever concern as these right wing voices on the radio began to emerge; if there wasn’t a thought that, listen, this might be working for us in the short run, but perhaps we might be doing something to limit their influence in the long run.

Hoagland: The straight answer is I don’t know how people like Domenici, Dole, Baker, Hatfield, [John] Chaffee, that wing of the Republican Party, felt about this. [John] Danforth, another example. My sense is that they were concerned. I know I expressed one time, probably to the chagrin of some members, that the Christian right and the young man who was on the cover of Time magazine that headed that up, was maybe not Christian and not right, and got myself in trouble. But I think the issues that some of us felt, going back to first principles, was that particularly where there was a religious orientation for some of the conservative organizations, that we were losing that first principle of the separation of church and state. I think there were concerns. What was the man’s name?

Meeker: Ralph Reed.

Hoagland: Ralph Reed. I think it became very clear that he knew how to organize, he knew how to build grassroots, he knew how to influence. That mechanism that he set up, however it was done, was impactful to members and they could see, whether you agreed with him or disagreed with him, he certainly was a good organizer. They could see that as a model. So Martin, I can’t say that people were concerned, didn’t know how it would evolve; but lots of times, we think these things are spur of the moment, these are one-off events, they go away. People have their day in the sun and then that’s it, but the republic continues on. What has happened is that we go through these swings, and we’re obviously going through one of these swings now. But it will swing back. I think it will. So I can’t answer your question. I don’t know if they were concerned or not.

Meeker: Well, I appreciate you making this point.
Meeker: I’d like to ask about Social Security reform, particularly in the wake of the Greenspan Commission of 1983. Frankly, this is just a really broad question. What was the degree to which the Senate Budget Committee participated in responding to the commission’s recommendations?

Hoagland: A great deal of involvement. I think we recognized and pointed out the problems of failure for the checks to go out, and so there was a lot of discussion. But this may have been one of the first examples of where we started going off to the side, with special commissions, gangs of seven, gangs of twelve, whatever, that were outside of the Budget Committee, but because they were cross-sectional or established by the president, were able to feed back into the budget committee. So I have to say it was more reactionary, as opposed to being heavily involved in the decision-making process. I’m trying to remember if some members of the Greenspan Commission might’ve been on the Budget Committee; I don’t remember. [Daniel Patrick] Moynihan was not. Dole may have been still on the Budget Committee. No, Dole was not on the Budget Committee at that time. But no, it was more external. What they did then fit back into the budget process.

Meeker: Do you know if there was any concern amongst committee members, or perhaps even staffers, about establishing a process that existed outside of the newly established budgeting process?

Hoagland: No, I think quite the opposite. There was a recognition that the only way something as sensitive as Social Security, and the real threat that the checks were not going to go out, needed to have an independent, new approach, and behind closed doors, not a lot of attention paid to it, to work it out in a non-political way. So no, I think if anything, there was a relief that the commission was set up to deal with something that maybe could not have been handled in the great deliberative body on its own, like a special commission.

Meeker: Okay. Well, let’s fast forward to 1985.

Hoagland: Oh, boy. All right. Now we’re getting to something I can remember.

Meeker: Yeah. Gramm-Rudman-Hollings, right? Which you describe in your Senate Historical Office interview as a seminal piece of legislation in the budget process, probably the most important after 1974. I guess I’d like to start out with asking you a really broad question about this. It’s clear that by the time that 1985 rolls around, this legislation’s introduced, that deficits are a concern, beyond sort of the green-eye-shade people, people who are very concerned about the numbers, right? It becomes a broader political issue and becomes news stories and there’s a much wider concern about what the implications of
I think it precedes 1985. I think my experience was that we were going through a period of time where we put together a bipartisan budget resolution in the United States Senate—with Domenici and [Lawton] Childs, I believe—and that that budget resolution was trying honestly to get us on a path. The deficits were increasing and we were trying to get on a path. One of the major elements of that 1984 budget resolution—or maybe it was ’85 budget resolution in ’84—was the one-year freeze on Social Security COLA update.

Cost of living. That passed the United States Senate. In fact, as I recall very distinctly, it passed because former senator from California, Pete Wilson, Governor Wilson, was wheeled in at about two a.m. in the morning on a gurney, because he’d had an appendectomy the night before and we needed his vote to pass it. There was real attention being paid in the United States Senate to this. I think that’s when it started getting attention. Now, when it goes to the House and the hard feelings develop a little bit, because Tip O’Neill and the president basically cut a deal and said, we won’t touch Social Security COLA, which Tip O’Neill wanted, that’s when I think my boss at that time, Senator Domenici, went into a depressed stage. In fact, he believes to this day that the senate switched in 1986, from Republican control to Democratic control, because of that one vote that he put his colleagues through, to freeze Social Security. The sensitivity to Social Security in this town, to this day, is still there, of course. I know for a fact, because I was with him, he was depressed. There’s some family issues going on at the same time, with a daughter who was not well. He just basically said, what have I done here? Yet this still confronts me. We need to address this for the future. In that environment, the next step—which we’re about to see again here—very quickly thereafter, was the issue, well, we have to raise the statutory debt limit to $2 trillion. That’s when this young former Democratic congressman, turned United States Senator from Texas, walks in and says to Peter, “I’ve got a solution. It’s a process. If we can’t do it, we’ll let the process do it for us.” Out of this came Gramm-Rudman-Hollings, which then added, for all practical purposes, to the debt limit increase.

Just jumping way ahead, I also see this, the 1995-1996 government shut downs, bipartisan deals, Gramm-Rudman-Hollings as the real model for what we’re facing here in a couple of months, which is raising the statutory debt
limit and rather than doing substantive policy changes, doing a process change that says, we’re committed to reducing the debt to GDP to 60 percent back then. Shows you how much we’ve changed. We were reducing a deficit number to zero; now we’re just only trying to get it down to a percentage of GDP. But out of that 1985 Gramm-Rudman-Hollings came the legislation that I think really finally put us, throughout the remainder of the eighties, into the nineties and mid-nineties, into a real focus on debt and deficits.

Meeker: This is really helpful, but let me share an idea with you and get your feedback on it. It seems like the problems around debt and deficits are the result of loggerheads between Democrats and Republicans. Let’s say that has to do with Republicans’ reluctance to raise revenues and continue to cut taxes, which of course, has implications on revenue; and Democrats refusal to touch Social Security or entitlements. It’s kind of interesting. When Tip O’Neill and Reagan get together and refuse to not increase cost of living adjustments in 1984, that seems to me maybe the declaration by Democrats that this is how they’re going to perhaps approach the issue and maybe not be fiscally responsible, in some ways. Whereas Republicans sort of started out in the early eighties with the tax cuts, even though many of those were ultimately rescinded. But also when tax rates were indexed to inflation, that changes the whole revenue scheme, whereby prior to that, legislators could regularly give out tax cuts, yet not decrease revenues into the federal government. After the indexing, they couldn’t give out tax cuts without impacting revenues to the federal government. Both of these have profound impacts on the deficit and the accumulated national debt. Does that seem like sort of a reasonable interpretation?

Hoagland: No, I think it’s a reasonable interpretation, and I blame both parties for our inability to come to an agreement on this. I think you’re right; I think it’s so easy to politicize Social Security or Medicare or Medicaid. And it’s been successful. Let’s be honest, it’s been successful on the political trail for some people. Senator Domenici and Senator Dole would say that the Senate switched because they dared just to freeze, for one year, a COLA. Here again, it’s proven that in confluence with the growth in either the right or the left or the talk shows has been able to make this even more difficult to come to a compromise in the middle.

Meeker: Well, it also shows, perhaps, that fiscal responsibility and reducing deficits is not necessarily a politically winning issue, especially when confronted with the alternatives of increasing taxes or entitlement reform.

Hoagland: Right. Yeah. Except that it does seem to me—and I made a comment to some reporter earlier this week—that you will hear now, we’ve got to do something, we’ve got to do something, we’ve got to do something. I’ve been there; I’ve heard that before. It’s when you move from we’ve got to do something to
finding out, knowing what they have to do, that all of a sudden things—Well, wait, I didn’t mean that. Because, just as simple as I can put it, the problem is not earmarks. Sure, do away with earmarks. The problems is not the discretionary budget. It’s not what my friend Chairman [Paul] Ryan is reducing, in terms of discretionary spending. That’s not the problem. The problem are these major, 70 percent of the budget and the interest included in that, on the entitlement side. These are not low-income programs, these are middleclass programs. We’re getting off board here, but my own sense is it has to be both on the tax side and it has to be on the mandatory side. You have to do both if you’re going to be successful in addressing this problem. If we are not, I have faith in this country, I think we’ll survive; but we’ll have a crisis. That will focus their attention pretty quickly. Like Gramm-Rudman-Hollings, we have a crisis; 1987, the stock market crashes, we come back and modify Gramm-Rudman. 1990, we go out to Andrews Air Force Base and continue to refine Gramm-Rudman-Hollings, eventually, with PAYGO and discretionary spending caps. I think the 1997 agreement grew out of a crisis, which occurred with the government shutdown before. So you put the 1990 agreements, with George Bush I, “Read my lips,” that he was willing to put taxes on the table, with Dick Darman being made out to be the evil guy, by Newt Gingrich. But you put George Bush I with Clinton to agreement and look, we ended up with surpluses now. Not all because of the process, not all because of policy; obviously, a lot of it had to do with the economy. But it does require people’s giving on both sides, and I haven’t seen that in today’s environment.

Meeker: Well, let’s go back to ’85 again. I’m wondering if you can give me a sense, from your vantage point at the Budget Committee, about how that piece of legislation emerged as it did. What maybe other options were on the table that weren’t pursued? When did you first encounter this?

Hoagland: Well, as I say, the ’85 Gramm-Rudman-Hollings grew out of the failure of the previous year, in terms of the budget resolution that Domenici put together and had a path. In fact, if I recall correctly, the budget resolution that we had put together with the freeze, one-year freeze, had us on a path that basically followed what Gramm-Rudman-Hollings was achieving later on. And we used basically the same numbers to get the balance in 1991, I want to say. So what happened was that was the first round; it failed. So we go to the second round. Well, we can’t do it on substantive policy, so let’s do it on process. As I say, Domenici was weakened in some ways. He threw up his hands and said, “Okay, Senator Gramm, if you’ve got a better way of doing it, come forth.” Gramm then went to [Ernest] Hollings and [Warren] Rudman and both of them—Hollings more so than Rudman; Hollings later on said he wanted a divorce from this act. But it was, if you like, outside of the Budget Committee directly, though Hollings and Rudman were both on the Budget Committee. [The Budget Committee] said, that’s okay, we can’t do it, the chairman can’t do it, the ranking member can’t do it; if you guys have got a new mousetrap,
let’s see it. I think it was easy, in some ways, relative to a freeze or cutting Medicare or Social Security or freezing defense or whatever, because it was a process change. Nobody knew how it was going to work. We knew that it had this mechanism in it, and it would trigger if congress didn’t do their job. But if they didn’t do their job, then we’ll let the automatic triggers get us on the path. The concept was simple. Now, the implementation and the application of it was extremely complicated, because we had to go through long, long staff discussions. Particularly, how does the sequester work? What’s exempt? And do you apply a full cut on Medicare or do we limit it to 2 percent? There were all kinds of technical problems. But the concept was simple, understandable. If we don’t get our work done, Gramm used to refer to it as the sickle that would come down on top of you. That was the mechanism that we adopted. Because it was attached to what must pass legislation, the debt limit increase, it was acceptable to both sides.

Meeker: One thing that wasn’t included in the legislation was—

02-00:18:12

Hoagland: Taxes.

Meeker: Yes, any revenue increases to help deal with this. Do you recall the conversations on the Budget Committee? Was that ever a serious consideration? Were there any legislators who were going to bat for revenue increases, as well as spending cuts at that point in time?

02-00:18:32

Hoagland: I don’t recall if there was anybody that really stepped up to the plate on that. Certainly, a lot more today about it should be even between mandatory spending cuts and some sort of an excise tax it triggers. I recall staff discussions that it should be, but no, Martin, I just don’t recall anybody that was pressing this formula. First of all, I don’t think most people realized exactly how this thing was going to work. It was a focus on spending, as opposed to raising revenues. Certainly, Gramm and Hollings were not interested in raising taxes at that point, so I don’t think it was ever seriously considered as part of the formula.

Meeker: At the time, did you anticipate that it would be successful? There’s some debate about whether people thought it would actually be successful or it was something that simply needed to be done to show the country that Washington was attempting to address the problem, with the understanding that there would be so many ways out of it that the sequester would, in fact, never really, for instance, have a major cut on defense, which was a problem.

02-00:20:05

Hoagland: Which would happen, and then we’ve backed off of it. Personally, I never thought it would work. Largely because it was just very naïve on my part. You were setting a path toward balance that four or five years out, was a reduction from something that nobody exactly knew. At the time we set the path, we had
a projection; but as we found out in 2001 and over the years I was up there, even a projection of the economy, or two or three years out in the future can significantly modify the baseline and where you’re cutting from. So I always had some concerns about it. They brought me in because of my agricultural background to try to figure out, how do you apply sequesters to crop years versus calendar years versus fiscal years? Again, it’s simplistic in one’s mind, but the mechanics of this were rather daunting. Also I think not only did we leave taxes off, but then we left off some of the Social Security, we limited the reductions in Medicare and Medicaid, and we put all of this, basically, burden back on the discretionary portion of the budget, which I felt was unfair. Now, there was always the cop out, should there be a recession, should there be a war, those things—natural disasters—were exempt from this. But I never felt that the process was the answer. I still don’t think process is the answer. But I will say that there was a small sequester, as you might recall. I think it was $12 billion.

But then when we had the stock market crash, in ’87 I believe it was, and things were going very badly, we had negotiations. We brought the gang of twelve or seven back into discussions. James Baker, I think, probably was involved in those discussions, and Howard Baker, too. That’s right, Howard Baker was at the White House Chief of Staff, and James Baker was at the State Department. So we had these discussions that we went back in to try to keep Gramm-Rudman-Hollings, but to modify—we called it Gramm-Rudman II or something—modify the sequester so it was more bearable.

Meeker: Well, there’s also the Supreme Court decision that—

Hoagland: Right, right, that forced it back down to the OMB. Of course, we understood when we were putting it together that there was a question about the constitutionality of it, so we did have a severability clause in there—as opposed to what we’re going through right now with health care reform, with no severability clause, which I think is a mistake, but that’s separate and apart. That has to do with the fact that the way health care went together was not in a conference. Anyway, that’s right. It was clear, even after ’85, that it didn’t take long before there were flaws in its implementation and how it actually implemented. Again, it came back to the fact that the cut, I think, on defense was just unbearable. But like so many things in this town, it provided lessons. I think it led to the 1990 agreements, in 1990, at Andrews Air Force Base, where rather than having all this pressure placed on defense and non-defense, that we pull it out and we set a total limitation on discretionary spending.

Meeker: Well, let’s move up to 1990 then, and talk about the Budget Enforcement Act that was hammered out at Andrews Air Force Base. But maybe I’ll begin by asking you a little bit about 1988 and the general election, presidential election. Two things: One, George H.W. Bush had the reputation as being somewhat more of a moderate and a compromiser than Reagan. There was a
sense, according to my readings, that he would come in and perhaps work better with congress, be more willing to compromise, perhaps address some of what were termed as the excesses of the 1980s, so that he would be more willing to deal with debt and deficits. Yet at the same time, during that election, Bush and his people were extremely critical of [Michael] Dukakis and the tax increases in Massachusetts, and he issued his very—

02-00:25:16  
Hoagland: Famous statement down in New Orleans.

Meeker: Yeah. “Read my lips. No new taxes,” right? So I’m wondering, as somebody working on the Budget Committee, what did you think of the incoming Bush administration?

02-00:25:32  
Hoagland: I was in New Orleans when he made the statement, because there was some thought at that time that my boss, Senator Domenici, was going to be his running mate as vice president, and I was asked to go down and be with Senator Domenici, in case that were the case. Of course, those conventions are in August. We were on the Outer Banks of North Carolina, trying to get away from everything, and I had to leave my family on the Outer Banks and I flew down when he picked [James Danforth “Dan”] Quayle. Quayle was on the Budget Committee and I knew Senator Quayle. I personally had hopes that this was a moderate Republican, willing to work across the aisle. But when he made that statement, I thought, oh, boy, you’re taking things off the table. Whether he was pushed into that because of the other side, I don’t know, but it was disappointing. So of course, it came back to haunt him. That’s why Dick Darman received such criticism, is that we negotiated a deal in 1990, that quote, “violated” the read-my-lips pledge. I think he did the right thing. Circumstances dictated that we try to find some agreement and he paid the political price for it.

Meeker: Well, the 1990 agreement was, in essence, replacing Gramm-Rudman-Hollings.

02-00:27:08  
Hoagland: Yes. Yes. A lot of the flaws that I talked about, in terms of rather than having fixed targets, we have pay-as-you-go. We’d decide on the path, and then anything that worsens that would have to be paid for. The PAYGO agreements, the definitions of an emergency, also setting of discretionary spending caps, both for defense and non-defense. Here again, funny how these things come back as we get into them. I remember sitting out there at Andrews Air Force Base late one night and the word came in about Kuwait. I thought, oh, how are we going to handle this now? Darman was very clear; we just keep on going. Darman had a principle which I don’t know if I agreed. He said, “When you hit the rock, just go around it and keep on going. We’ll come back to it if we have to.” I think the sending of the troops into Kuwait that fall was outside of the agreement. It was an emergency and so therefore, it didn’t
change anything, which he probably was right. But the 1990 agreement, I think was a good example of how it was necessary to work across the aisle and try to stay away from media as much as possible. Though I remember [George] Stephanopoulos worked for [Richard] Gephardt at the time, and some of us were critical that he would run out to the press every night and tell the press exactly everything that was being discussed at Andrews, so he was violating our agreements. But so be it.

Meeker: Do you suppose that that was what was happening?

02-00:29:13

Hoagland: Yeah. Because Gephardt was not onboard, I don’t think, with a lot of this. I just don’t think he was as involved as I would have liked him to have been.

Meeker: Was there a pretty broad consensus, at least among some people who were there, maybe not with the solutions that were offered, but with a diagnosis of the problems?

02-00:29:41

Hoagland: Yeah. Here again, I think there was a recognition—I keep trying to think back on—at the time. At least those people had been through Gramm-Rudman-Hollings, they’d seen the ’87 crash, they knew that things didn’t work. But there was still a sense that deficits and debt did matter. So no, I still think they thought something had to be done.

Meeker: I recall reading an article that you wrote, and you mention something about PAYGO rules actually having their origin in the 1985 act. I wonder if you can unpack that. I always thought that they were really first articulated in the 1990 act.

02-00:30:26

Hoagland: I’m trying to remember what article you must’ve read.

Meeker: Well, I think was maybe the response to the Irene Rubin article, on “The Great Unraveling,” of the budget process.

02-00:30:35

Hoagland: Oh, yeah. Well, I think what I was driving at was that in some ways, the sequester mechanism was a form of a pay-go. It wasn’t the same. It obviously wasn’t the same. The difficulty was that pay-go doesn’t reduce the deficit. What pay-go did was we locked in place policies, out at Andrews Air Force Base, that put us on a path. Then we superimposed upon that, a procedure. If you want to add more for entitlements, fine. You’ve got pay for them. Or if you want to cut taxes from that which was adopted at Andrews, you had to pay for them. So pay-go never really reduced the deficit; it only kept it from getting off the path that we had established. In some ways, my thought was—I guess now, thinking back on it—that Gramm-Rudman-Hollings was also a form, with the sequester mechanism, of a pay-go. If you didn’t meet the path,
there was a pay-go. It was you paid for violating the agreement or not hitting the target.

Meeker: So when you said that it was policies that were established at Andrews and the procedures later, to match those, what were the main policy decisions that were made at Andrews?

02-00:31:58 Hoagland: Oh, boy, that’s a good question, now I think back upon it. The things that stand out for me was a gasoline tax, which was the one that got, I think, the president in trouble. There were limitations placed on discretionary spending, which was both policy and process, because then part of that led to the discretionary spending caps that were established. I don’t recall all the things we did in the area of Medicare, but I’m sure that we were tinkering around the edges with Medicare, in some ways out there. Agricultural, I think there were some reductions there, too. I should’ve done my homework; I just don’t remember all the policy issues that we have dealt with.

Meeker: But then when you come back to Washington, the procedures to implement the policies are developed. Is that where pay-go comes from?

02-00:32:54 Hoagland: Now, on this one, I think I’m right. We agreed to the policies that would get us on a downward path, out at Andrews, and before we left Andrews, we enforced it. By enforcing it, I mean by setting a procedure that if you violate the spending caps that we’ve specified for defense and non-defense, there is a sequester on defense and non-defense. If you violate the path that we’re on for entitlement spending, that we’ve assumed at Andrews, there is a pay-go provision. You go over, you’re going to pay for it. So we didn’t leave Andrews with just policy; we left Andrews with policy and process for enforcement.

Meeker: Did pay-go come from a particular individual?

02-00:33:53 Hoagland: Leon Panetta, I think, has to be given some of the credit for this. He, of course, would he have been chairman of the House Budget Committee. Leon Panetta and Senator Domenici, the Italian stallions, were good friends, and both of them understood the failures of Gramm-Rudman-Hollings. Leon had proposed something along these lines, I think earlier, much earlier, back when we were dealing with Gramm-Rudman as a process, but I would give Leon Panetta the credit for that.

Meeker: Then thinking about the historical legacy of this 1990 act, some say that it’s at least part of the reason that there were budget surpluses in the late 1990s. Do you tend to agree with this?
I agree, in the sense that it did take away the crude Gramm-Rudman-Hollings; it did put in place process, with pay-go, discretionary spending. It set the principles in place upon enforcement mechanisms. The fact that it did start to move us in a direction of reducing deficits and debt, that after we go through the crisis of ’95-96 and we get to ’97, I think it was just a natural evolution that the things that had—and they had worked, the procedures had worked—that they were evolved into the enforcement of the 1997 agreements.

Because there is this sort of meta-debate, I guess, that we’ve encountered in this, of process, which is politics. There has to be a political will; otherwise, if there’s not a political will, then there will be a political way around the process. What do you think of that debate?

Well, obviously, I think you can have all the processes in the world that you want; unless the people are willing to follow through with the processes, it doesn’t do any good. So yes, the political will is critical. I just think that throughout the nineties and after the crisis and government shutdowns in ’95-96, that there was a political will. Presidential elections were over with. Clinton had done; Dole had lost. No hard feelings, but let’s not revisit this and go around again. Let’s sit down and work it out. And I think that’s exactly what we did.

You had mentioned Gephardt’s perhaps reluctance to participate in the Budget Enforcement Act of 1990. It’s also pointed out that another congressman was not really happy with what was going on.

Gingrich?

Yes.

Back bencher. He was a back bencher at the time. Do I see him as what?

Well, maybe I can just let you finish your thought there.

Well, my thought is that he was not out at Andrews. He obviously had an agenda of his own. He didn’t trust these old bulls, as he called them. He and, I think, Dole did not get along. In fact, I remember distinctly a couple of times—and I don’t believe Senator Dole would in any way criticize me for saying this—that during the 1995-96 government shutdown, that was Gingrich-led, Dole, after the elections, came back and said, “The adults are going to have to take back charge.” So I think Gingrich—a smart man, obviously, extremely smart—has a political bent to him. But I think he did not do President Bush I any good by undermining the agreement that we had reached. And we it failed. We had to go back and renegotiate. Now, quite
frankly, some people will tell you—and I’d have to go back and look at it because I was so frustrated at the time—that after we renegotiated, I don’t think it improved it any. Or I don’t think it made it any different, in terms of the final outcome. In fact, some people tell me we even raised more taxes after he defeated the reconciliation bill that we put together. Listen, I can’t deny that he didn’t have a major impact upon that. Of course, I think it did spur him into then becoming the speaker.

Meeker: It might be argued that perhaps as a result of that agreement, it emboldened the more ideological wing of the Republican Party that then results in the 1994 midterm elections.

Hoagland: Yeah, I think so. I think it definitely emboldened him and definitely gave him, at least from his perspective, the Contract With America to take the harsh stance that he took that led to the government shutdown, which I don’t think benefited either party, or particularly Republicans.

Meeker: So one of the big budgetary impacts that happens in the 1990s, one of the many things that, arguably, sets up the surpluses of the late 1990s is the end of the Cold War, perhaps, and the shrinking of defense spending as a result of that. Is that a statement you would agree with, slightly, majorly? Because defense spending as percentage of GDP does go down.

Hoagland: I’m refreshing my memory looking at that, too. I guess we go from about 6.1 percent in 1985 to 3 percent and about a half, yeah. No, I think the peace dividend did come into play and helped in that, getting there. Obviously, we’re getting back up into the 5 percentage point range now. But yeah, I agree that the wall coming down was helpful. I’m hard pressed to believe that it was a major factor, though looking at the percentages here, I would have to agree that at least for a time period there, it had some benefit. Anyway, I don’t want to give a lot of credit to the peace dividend as having reduced the deficit. I think it did in a short period of time, but that has subsequently gone away, I guess, is what I want to say.

Meeker: A secondary factor, perhaps?

Hoagland: Yeah.

Meeker: When you were on the Budget Committee at this point in time or staffing it—you obviously saw the wall fall, saw the dissolution of the Soviet Union—did you feel like that there would be substantial impacts for the budget?

Hoagland: I know we talked a lot about it. [chuckles] Everybody gave talks about the peace dividend and all this. Quite frankly, those who talked about the peace
dividend on that side would also talk about the need for infrastructure investment and transportation and sewer and water, and so whatever was being saved on the defense side, now as I look at it, some of it shifted to the non-defense side. So while defense may have gone down, it was fungible, if you like, into other areas of the budget.

Meeker: Okay. So the savings were immediately spent.

02-00:43:04
Hoagland: Pretty much so, is my sense, yeah.

Meeker: Okay. Actually, this is a bit of an aside, but I’d like to cover it before we wrap up today, and that is the change in the Senate. So when you arrived there, Domenici was the chair, correct? Meaning that Republicans were in power. In 1986, it changes, and then it changes back again in ’94, and then it changes back for a short period of time, around 2001.

02-00:43:37

Meeker: Yeah, 2001, when [James] Jeffords switches over. Then it changes back again in 2002. Just from your perspective, does this have a substantial impact on the way that legislation moves through the committee, or at least the work that someone like you was doing on the Budget Committee? I guess those are two different questions.

02-00:44:08
Hoagland: First of all, I think it’s good to have change. I think there’s nothing wrong; that’s what elections are all about. Yes, I was in the minority, I was in the majority; I was back in the minority, back in the majority. It sometimes, I would say, was more fun to be in the minority because you really didn’t have the responsibility that you had when you were in the majority. But I don’t think there’s anything wrong, and I don’t think it necessarily changes the fundamental functioning of the congress to have change. Obviously, it changes focus and policy, but in the Senate, at least during that period of time, I think it was at the margin. Again, the Senate to me, in the years that I was there, pretty much, until kind of toward the end, was pretty much still the old good-old-boy network, as they like to say. The chairman and the ranking members worked together, and if they flipped, they flipped. I’m not going to suggest it didn’t change policy focus, but I don’t think it changed the major thrust. I also think as these changes were taking place—and not to get into it—nobody ever really had super-majorities; nobody ever had the sixty until this last 111th Congress, and then only briefly. I think because of the rules of the Senate, it forced people to work together toward the center. When you have the super-majority, you have the sixty, you can ignore the other side. That may be one of the problems with the health care bill a little bit. At least as it passed the Senate, it didn’t need any Republican support. I think such issues as deficit reduction or major public policy issues requires that we have
a consensus. I don’t say you have to have 100 votes for it, but I think you do need a good substantial majority, more than sixty, to effectuate major public policy changes. If you don’t, then you have to force, as I say, toward people working across the aisle. So I don’t think it’s a major issue.

Meeker: So does working across the aisle, then, extend to the staff level, as well?

Hoagland: Oh, absolutely. Absolutely. At least in my case, absolutely. I don’t know if that necessarily applies to all committees. It really comes from the chairman and the ranking member. I was lucky that I had Senator Domenici, who worked very closely with Senator Chiles, he worked very closely with Senator Exon. Senator [James] Sasser was a little bit less cooperative in working together. Senator [Kent] Conrad worked together. So I think that the staff follows the boss’ leads; we don’t try to get out in front of the. They have good ideas, we have good ideas; let’s try to find the middle. I would work, definitely, with my fellow staff.

Meeker: Thinking about the senators who served on the committee, did it seem to you that it attracted individuals who were interested in budget balance, that this is something that they were particularly keenly committed?

Hoagland: Funny you should ask that. At least as it relates to the Senate Budget Committee, I think that for a long time. But then I have to tell you that I think there came a point, probably after the 1997 agreement, when Senator Lott wanted to change the makeup of the committee. The people that were on the committee prior to that were Senator [Kit] Bond, Senator [Olympia] Snowe, Senator Danforth, at least on the Republican side. I would say they were more the centrists, and they were concerned and were willing to address these issues in a bipartisan manner. Senator Lott, I think, was suspect of Senator Domenici as being one of those raging moderates. So what we started to see was appointments from the leadership that changed the makeup of the committee. Senator [Jeff] Sessions now is the ranking member, as an example. Some of the rather more ideological conservative members on the Republican side replaced some of those more moderate centrist Republicans. As a consequence, in retaliation, then the Democrats do the same thing and it makes it harder. So I think the committee was a lot easier, a lot more successful, because we worked in the center; but as the more ideological members became part of the committee, it made it a lot harder, and may be one of the reasons why it was hard to get a budget resolution adopted this last year, last few years.

Meeker: Maybe it will get even more difficult now, with Kent Conrad retiring and so forth.

Hoagland: I am worried. I am worried. I am worried.
Meeker: Let me just ask about the ’93 budget, and then we’ll end there for the day. Or the fiscal year ’94 budget negotiation in 1993. This was Clinton’s first budget.

02-00:50:18
Hoagland: Oh, the one that had no Republican support whatsoever.

Meeker: Yes. Yes.

02-00:50:22
Hoagland: Yeah. Hard feelings. Why is that? Why is that? Gramm was really very strongly opposed to this. It had tax increases; it was the Social Security tax increase for those in there.

Meeker: It also increased marginal tax rates.

02-00:50:43
Hoagland: Marginal tax rates. It was the starting of the partisan fights, I guess, and kind of led to the ’94-'95 shutdown.

Meeker: We would love to interview Gramm; I don’t know if it’s actually going to happen or not.

02-00:51:09
Hoagland: You really should.

Meeker: Well, he’s been invited, so we’re working on it. It also is one of these budgets that many attribute as a source of some of the surpluses in the late 1990s because not only were there some spending cuts, but there were also revenue increases.

02-00:51:32
Hoagland: Absolutely. Right.

Meeker: You would think that someone like Gramm, who was a deficit hawk, maybe would have been sympathetic with this. Given the context—especially reading, for instance, what Alan Greenspan now writes about Clinton during the beginning of his presidency, deficit hawks, from Greenspan to Alice Rivlin, were concerned about Clinton’s economic agenda while he was running for president; and then perhaps under the influence of people like Bob Rubin and Alice Rivlin and Leon Panetta and others, when he comes into office. Also recognizing the extent of the deficit as it had really started to grow at the end of the Bush administration, Clinton sort of changes his economic agenda and becomes much more of a deficit hawk. That’s how you end up with this budget. So I guess it is a little shocking to me that—

02-00:52:39
Hoagland: The Republicans didn’t support it.
Meeker: Yeah, that there was so much opposition. The way that you describe it as kind of this beginning of, really, the budget battles.

Hoagland: Yeah. I don’t know what to attribute to all the issues. I know taxes were an issue, and I also know that there might’ve been still some hard feelings, coming off of the election and George Bush’s defeat. Also I think there was a sense that he made this pledge and let him follow through with it. I simply recall that when they went down to Little Rock or wherever, after he was elected, and they had these meetings, and Alice had pointed out how things had gotten worse, that that might’ve been when he shifted from, well, I was going to do health care, now. It’s kind of the opposite of what’s happening with President Obama. Then Clinton did focus on debt. I remember very clearly when Clinton came up to talk to the senators early on, and he was pointing out the members in the audience who were up front and he said, “I watched Pete Domenici for years on the Budget Committee, and I respect him and I think he’s right.” So I think he tried. But here we’re starting to see the difficulties of some of the more conservative members starting to weigh in pretty heavily on the tax side and we can’t have any new taxes. And coming off of the problem that George Bush had with “read my lips,” I think it kind of solidified their position that they weren’t going to support this first round.

Meeker: For instance, why do you suppose Domenici voted against it?

Hoagland: Peer pressure. [chuckles] The argument that Gramm kept making, beating on the floor, was, this is going to send us into a depression or a recession or something. I kept saying, “I don’t think so. I don’t think so, Senator.” But I don’t have enough faith anymore in economic forecasts to know what, at the margin, this will do. So it truly was peer pressure. Truly was peer pressure. He couldn’t be the only one to step out. By the way, if they got the vice president to break the tie, fine. They didn’t need him.

Meeker: Interesting.

Hoagland: They didn’t need him.

Meeker: That actually kind of goes back to this point that an interviewee said yesterday, that if they did filibuster reform and they got rid of the filibuster, instead of having three or four people in the margins, you’d have twelve to thirteen people in the margins. You would still have the same problems.

Hoagland: You would, you would.

Meeker: So maybe this legislation was destined to pass. If they needed another vote, maybe somebody like Domenici would have felt compelled to—
Hoagland: It’s possible, it’s possible.

Meeker: Okay. I was going to ask more thing, but I’m forgetting it.

Hoagland: Haven’t even got to the fun stuff yet.
Today is the 25th of April, 2011. This is Martin Meeker interviewing William Hoagland for the history of debt and deficits project. This is tape number three. We covered the first Clinton budget, the 1993 budget negotiations a little bit in the last interview. We had talked about, basically, that this was the budget no Republican voted for. I’m wondering if you can give me a little more explanation, from your vantage point, about why it was that the Clinton administration, coming in with a plan that was actually seemingly endorsed by Alan Greenspan as a serious effort at cutting the budget deficit, why it was that they were unable to garner any Republican support, particularly in the Senate.

That particular budget included a provision to increase taxes. That provision dealt with, in part, as I recall, was increasing social security taxes on higher income. I think there was a lot of upsetness for Republicans carried over from the election. I’m not sure of all the factors that led to there being no Republican support. I think, however, there was a tax provision, plus the debate on the floor that I recall stands out was Phil Gramm, who argued vehemently and strongly that that budget was going to create a recession and a negative impact on the economy.

Because of the tax increases?

Because of the taxes. Senator Gramm was extremely effective and articulate, even though he had that Texas twang to him. He really was convincing. He was convincing in the sense also that he was probably, of the Republicans, the most knowledgeable, broadly, about the economy, or at least could articulate it.

An economist by training.

An economist by training. I believe that he was the major factor. They did not need Republican votes, except for the fact that it was a fifty-fifty situation. They had the vice president. I think there was some politics involved to try to force that vote into the vice president’s quarter so that, depending on what his future plans would be, that they could hold it against him.

Interesting.
Hoagland: I remember sitting there on the floor as the arguments were going with Senator Domenici. Quietly, both of us said, it’s not that bad of a budget, and what if Phil Gramm is wrong? We proceeded, though. It was a political vote. After the election, it was sending a message to the new president and all that. That’s my recollection of the factors that went into it. It was a pure, unadulterated political vote.

Meeker: To what extent had extra congressional or political factors become an important role? I’m thinking of the influence of people like Grover Norquist at this point.

Hoagland: Yeah. This is when I began to feel this division, this kind of polarization, particularly on the tax side. I don't know when all of it evolved, but clearly you’re starting to see the elements of the Grover Norquist coalitions, the anti-tax coalitions, and the impact of the outside organizations and the talk shows are starting to come into their development at this stage. So I’m sure that had a lot to do with it. Back to the tax on the social security, there was also a sense that Domenici and Dole had been burnt, as you recall from a previous discussion, with the 1985 one-year freeze on COLAs. I thought, wait a minute, we’re going to get that retiree vote back, so there was another reason to kind of highlight the fact that they were taxing social security benefits. I think the impact of AARP and the loss of the elderly vote—they, I think, had shifted to Clinton in that vote.

Meeker: There was also the recent history, I guess, of the attempt at Medicare reform that was then rescinded, but I imagine might have had some impact on the way people were thinking about those.

Hoagland: Probably. I don’t remember well. Medicare, Medicare.

Meeker: It was taxing benefits at a certain level.

Hoagland: Yeah, the same thing. Increasing the Part B premium, I believe, is part of that discussion. But all of that, I’m sure, was a part of the reason for why there was so little Republican support.

Meeker: Let’s then move forward to the big budget battles of late 1995. I have some questions about it, but maybe the most basic one is, why do you think it happened? Why do you think it came to a government shutdown late in the year?
First of all, it began with, obviously, the House of Representatives and Speaker Gingrich having his Contract with America that he had put out. A debate as it relates to getting to balance and how you could get to balance. There was a great deal of back and forth on that. We worked on budgets. Got it down to the president and was vetoed. Again, it was kind of the flip of the '93 argument, where all the Republicans voted against it. There were very few Democrats that supported that particular proposal. The president vetoed that. We came back. We got into the fall. The initial part of that fall—again, I’m stretching my memory on a lot of this now—the lead on it was the House, and it was Gingrich, and it was the revolution. He pushed pretty hard. We got to the point where it was just literally us or them kind of attitude. When it got right up to it, we also had some changes in Medicare. At the end, there was an insistence on the part of Gingrich that we change the Part B premium—increasing that. Well, that was enough to tip the balance. That was one of the first rounds that brought the president vetoing it and then getting the government shutdown started. So much of this rolls together. We went through about twenty-four days, I think, cumulative. We got up to the point where we thought we had an agreement. We opened the government up, then we failed to get that put back together. Went through the Christmas holidays and New Year holidays. It was just plain, raw, cold, very acerbic politics. I don’t think that Gingrich liked Clinton. Clinton, I don’t think, liked Gingrich. Two Southern boys. It always sticks in my mind, after about the second one of these shutdowns, that Dole finally said, “It’s about time for grownups to take over.” What we ended up doing, of course, was we worked to a draw and said, let’s go into the election. The election, then, of 1996. So it was a very—I don’t know what else to describe it as—just bad, bad on both sides. Each one thought, somehow, it was going to benefit them politically through the shutdown. I think what we’re going through here recently is everybody uses that as an example of why nobody benefits from government shutdowns. You push it as far as you can. I think Gingrich just flat-out didn’t know when to declare victory and move on.

Are you familiar with the book *The Pact* that came out recently?

What’s it called? *The Pact*?

*The Pact*, yeah. It’s a dual biography of Gingrich and Clinton. The author has this sense that they had a lot in common, so therefore they were able to get work accomplished. It sounds like your read was that, actually, there was a great deal more animosity between the two of them than shared feelings, perhaps.
Hoagland: If there was any love between the two of them, boy, I didn’t see it. I was in a few rooms where Gingrich had some very choice words for the president.

Meeker: When the president was not present?

Hoagland: When the president was not present. Maybe that good old boy kind of Southern mentality and competition. Let me put it this way. Both are very smart. Very smart. Both are very effective in articulating their position. Maybe one just thought they were better than the other and they wanted to show the other one that. I presume Gingrich was thinking about his future at that point, too, and this was an opportunity for him to show his wherewithal.

Meeker: And he was off a pretty monumental victory, and I’m sure he felt quite emboldened.

Hoagland: He was emboldened.

Meeker: I don’t mean to ask you to speculate about ways in which people were thinking, you not being one of those two people, but let me then ask you more about what your thinking was, and what your feelings were, being a senior staff person in the Senate, which is where the budget originates and is where the budget is finally approved. And as the upper house in Congress, yet here we have a new generation leading the charge in the House. The way in which it’s been interpreted since then is sort of pushing Republicans into the abyss in 1995, and into something that would be seen as a big political—

Hoagland: Mistake.

Meeker: Mistake. From your perspective, and from the people you were working with, what were you thinking about what was happening in the House and the way in which the leadership of the Senate was either managing their colleagues in the House or failing to manage their colleagues in the House?

Hoagland: In my small world, I had put together, with Senator Domenici and others, a Senate Budget Committee budget resolution. Typical, snotty Senate staffer. When the Contract with America came into play, we looked at that contract as carefully as we could. Here’s a Republican staffer in the Senate who looked at it, and I think I probably did get myself in trouble a few times by pointing out inconsistencies, or that’s not the way it would be scored, or that’s not likely to happen. They had set out, much like this same thing we went through here recently, we’re going to save $100 billion. Well, they make the comment
upfront before they really get into, can you really do that? Much of that contract was written in a similar way: we’re going to balance the budget, and we’re going to do it this way, and we’re going to reduce this, and we’re going to do that. Kept saying, don’t think so. I think he was trying to get to balance in seven years or something like that. We were saying we can get to balance, but we can’t do it in seven years on a realistic path. We had put together a different budget. All I can say is I was being much more of a budgeteer, an analyst, than I was a political guy. I was trying to say, I can’t make the numbers work. I think that’s what Dole and Domenici kept saying. They say they can. I said, well, fine.

I remember, long before our friend who passed away here, who had the white boards, we went over and we had white boards. I tried to show him where the numbers would go and how we could do it and what it would take. We were really into the numbers issue. Gingrich is smart. He wasn’t necessarily a numbers guy. He said, I don’t care, this is what we’re going to do. There was that kind of attitude. Fine, you’re the speaker. If you can get the votes to do it, go right ahead. I think, for a while there, Dole felt the same way. Hey, if you think you can get it through and get the president to sign it, then fine. Everything is so fuzzy right now because it was such a long stretch of long nights, overnights, and then into negotiations down at the White House in the middle of a couple of snowstorms, too.

To answer your question, Martin, I’m not sure. My feelings on it were I was trying to be a numbers person, and working with CBO, I didn’t see how we could actually achieve what they were trying to achieve in terms of a balanced budget. My recollection is, probably, once again, there wasn’t any taxes, or they were trying to leave taxes out of the discussion. It never made any sense to me.

03-00:18:00
Meeker: I’m going to try to read between the lines here a little bit. It seems to me the way that you’re characterizing Dole and Domenici’s response to this was—correct me if you think that this is way off—but one, they were, in principle, in agreement with the goals that were set out in the Contract with America. On the way in which these things were going to be brought about, there was some difference. The reason that they perhaps let the House take the lead on it, legislatively, was—I don't know. This acknowledgement that maybe Gingrich and his colleagues were ascendant, and maybe giving them enough rope to hang themselves on so that then their sort of more mature leadership would be recognized yet again, and they would perhaps be the more ascendant voice than the Congress.

03-00:19:03
Hoagland: Yes, I think you’ve got it in the sense that they were—after all, this Gingrich revolution was huge. It was new numbers. Not quite as many as his last election brought it, and that’s the first time in many years. He had a mandate.
So yes, he was in the ascendancy. Dole and Domenici were the old-timers. They had been around. They hadn’t accomplished it. Pass it off to the new guys. If they’ve got a better way to do this, let them take the lead on it. Initially, up until that late to the winter, you guys have got the lead here. As you’ll recall, going off to the funeral is Israel, I believe it was, I think Gingrich made some stupid remarks getting off at the back of the plane and being snubbed by the president, which just added to the animosity that I thought existed between the two of them. It became clear that this was a personal thing, not a thing that was in the best interest of the country. It was a bad, bad winter.

Then the White House issues that photograph of Clinton chatting up with Gingrich on Air Force One, when he said that he was being ignored.

The one thing about politics, and the one thing about this budget thing, is never to underestimate the personalities involved, and the egos that get in the way. When you can actually sit across the table without the press and all of this other stuff, cutting a deal, and just recognizing that each side has to give on something like this. This was one where we could have, I think, at the end of the day, avoided all that and could have moved on. But it became a personality conflict more than it did a budget conflict.

Do you know the degree to which Domenici was consulted when the contract was being drafted?

I know zero.

Zero. You know nothing of it or you know that he was not?

I know he was not consulted at all. The first time we saw it was when it was published. I know that to be a fact. This was a House thing. This was a House exercise.

Well, the fact that you know this means that there must have been a kind of response to it by Domenici and his senior staff people. How did he respond, one, to the substance of it, and then, two, to the fact that this transpired without even a courtesy?

Well, again, this was put out during the campaign. One of the things that I tried to avoid, and most of the professional staff tried to avoid, is that there are campaign staff and there are professional staff, and the campaign staff, if that’s what they have to do, to go right ahead. But so many times, what I got
to the point with my staff, was that, fine. Who am I to tell their campaign staff that their numbers don’t work? It was playing politically. It helped. Let them go with it. We will try to fix it up. I know we put together a budget and recognized the same goals, objectives, that was in the contract, but tried to put some realism into the numbers. Again, he was on the ascendancy. We’re not going to go out and undermine him. That would have been a very bad thing to do, just for internal working relationships. And certainly it would have been very bad for a staff person to raise anything. But I think both Domenici and Dole understood, from the briefings that I gave and the staff gave, that it was going to be pretty hard to accomplish what the contract had laid out, from a numbers perspective. They were the politicians that then figured out the politics, but from a numbers perspective, is going to be very difficult.

03-00:23:46
Meeker: What was Domenici’s position on the balanced budget amendment? The proposed balanced budget amendment. Do you recall?

03-00:23:54
Hoagland: Vote for it when it wouldn’t pass. How’s that? He had—in fact, I carry it around with me—the concept, the principle, that we shouldn’t leave our children a legacy of debt. To this day, he still quotes, of all people, Laurence Tribe. Considered a liberal, I guess, jurist. We had him testify before us during one of the balanced budget arguments in the Budget Committee. He was always taken by that principle that, given the concept there should be no taxation without representation, the principle of a balanced budget made sense. Again, the concept of balancing our revenues with our spending was always something—in fact, to this day, is still something that the senator believes. But he also, from my perspective, would vote for it because it was a political vote as much as anything, with the understanding it probably wouldn’t pass. It wouldn’t get there. But was with the concept in mind that, more importantly, you shouldn’t do that to the constitution. I know we’d gone through Gramm-Rudman-Hollings a couple of times. We just knew that it didn’t quite work that way, to lock into the constitution. There were times when you would run deficits. That was the purpose of stabilization policies. Unlike states that couldn’t print money, he was always reluctant to go out and super-endorse this concept of a balanced budget amendment to the constitution. But as I say, it was always a political vote. I don’t know what he would have done. In fact, I think we came a couple of votes close to passing it. After it passed the House, is that it?

03-00:26:16
Meeker: Yeah. I think that, actually, it was Senator Hatfield from Oregon who was the one Republican vote against it.

03-00:26:23
Hoagland: Who’s willing to stand up to it? I’m trying to remember if John Chafee also voted against it or something like that. But you’re absolutely correct. He and
Hatfield were close. He knew that Hatfield wouldn’t support it, so that way he didn’t have to—

03-00:26:36
Meeker: And Hatfield was approaching retirement, so—

03-00:26:38
Hoagland: That’s right. There was no reason for him to jeopardize his fiscal hat by going out and voting against it at the time. But underneath, he knew he was never a strong supporter of the constitutional amendment.

03-00:26:53
Meeker: That’s actually been one of—just as an aside—the discoveries, I guess, of this project. Don’t always pay too much attention to how the votes turn out, because it’s just enough for something to pass, or it’s just enough to not pass something. Let me move on. You had described this ’95 shutdown as one of the low moments in your career, and I imagine just because it was late nights, and as you described, a failure of negotiation. But then you described the 1997 agreement as one of your high points. I’m wondering, do you attribute this to it being a successful bipartisan negotiation or because the economic times were so robust in the United States that it made your job a lot easier to do?

03-00:27:56
Hoagland: I’d have to go back and look, but after the election in 1996 and we began in 1997, we had, first of all, the history behind us of the government shutdown and the failures and all of that. We also had behind us the fact that the presidential election was over with and we didn’t have to go through that again. We knew that President Clinton—that was his last term. So kind of presidential politics early on. The furthest away from the next presidential election, we had a window of opportunity. What I want to say is I’m not quite sure we knew that the economy was going to—in January of 1997. But we did know that we still had a fundamental imbalance in our revenue and spending, which we, to this day, still see. We took this as an opportunity, with a lot of the same staff that we’d worked with in 1995 and ’96 in the White House, to build upon those relationships with some of the same people that are there now. Gene Sperling, Jack Lew. We went to work on this issue. This time, as opposed to Gingrich, it literally was—and I give the Clinton White House a lot of credit for reaching out to us—immediately, in January 1996, John Hilley and Erskine Bowles, who I guess would have been chief of staff at that time, came up and we immediately said, let’s quietly go talk to Domenici. It’s somebody we can work with. We saw that during the period of time in ’95 and ’96. Let’s not lose some of the relationship that we built up there, and let’s also learn from our mistakes and move forward.

This was an opportunity for us. I think we did it the right way. We didn’t surprise anybody. We worked, first of all, to get understanding behind the scenes between the administration and the Republicans in the Senate. Probably, if there was a shortcoming there, it was our failure to reach out to
the Democratic members. We should have done more of that. The ranking member at that time would have been Frank Lautenberg from New Jersey. He was kind of like {Franklin?}, but I don’t think he was as engaged in the budget issues. He probably had won his issue on smoking on airplanes by then or something. He had other issues that he was more interested in than fiscal policy. So we worked hard within the Senate to kind of work with the Republican in the Senate. Dole was obviously gone by then. We had to work with Lott. There was always this Dick Morris issue that we had to deal with. I never met the man. He had a tendency to claim a unique relationship between Lott and Clinton, and thought he could be the go-between. Domenici and Lott had—let’s just say a working relationship, but they were not close like Dole and Domenici were. Lott was of the House, and who worked his way up. We wanted to be careful about what we told Lott we were doing, because then he would tell Dick Morris, and then it would get back and undermine the work that Erskine Bowles and John Hilley and all of us were working on.

Meeker: So from your perspective, Dick Morris really was this sort of svengali intermediary or something between Lott and Clinton, and so you had to be careful?

Hoagland: Yes. That is the way I always understood it to be. White House staff that I trusted were very nervous about Dick Morris. As I said, I never met the man. Don’t know him. He wouldn’t know me from Adam. But I trusted the people I was dealing with at the White House, and they were always extremely cautious about what you said to Lott would get back to the president via Dick Morris. We accepted that and tried to keep Lott off here to the side until we really needed him to come in. Lott also probably didn’t trust Domenici.

Meeker: Why do you suppose that was?

Hoagland: Well, Lott looked at Domenici as a tax-raiser. A person who would cut a deal too quickly. And of the old guard again—of the Domenici/Hatfield/Packwood garden variety Republican. Not a true-blue Republican. Interestingly enough—sidebar here—when Domenici gave up the budget committee to go to take over the chairmanship of the energy committee, and I was ready to leave the Senate, in that very short interregnum between that announcement and Lott putting his foot in mouth over Strom Thurmond’s comments about civil rights issues—Dixiecrats—Lott asked me to come and be his chief of staff on budget issues. I don’t know if I put this in any of the oral history or not, but I remember distinctly, because a number of times I would receive telephone calls from Lott. Because he wouldn’t go to Domenici. He’d call me. I wasn’t going to shade the truth in any way. If a majority leader asked me a question, I’m going to tell him what I know. If he asked a direct question, I would answer it. So he would come to me as opposed to going to Domenici.
A couple of times, he called me to chew me out. One day I got this call and he said, “I want you to come over to my office.” I thought, oh boy, I’m in trouble again. I walk into the office, just the leader and me, and he says, “Bill, I want you to be my chief of staff” or something of that nature. He said, “I know Domenici is leaving.” No kidding aside here, I just looked at him, I said, “Senator, I didn’t think you liked me.” He said, “Well, I’ve had my issues with you over the years, but you’re a fairly straight kind of guy.” But anyway, the interesting thing is then he got foot-in-mouth disease, and I thought, great, I’m out of this. Because I never had really to answer him as to would I take his job. I said, “I’ll help you out for a little while.” A week later, he’s out, and Bill Frist is in. But Bill Frist and I had known each other, and so he asked me to stay on that position.

Meeker: To take that position?
Hoagland: Yeah.

Meeker: Back to the ’97, have you had a chance to read Hilley’s book on it?
Hoagland: Oh, absolutely. Oh, absolutely.
Meeker: Do you have any general response to it?
Hoagland: Someplace down there, I have the original version that he wrote, which goes on forever.
Meeker: Yeah, it does go on forever!
Hoagland: I remember asking him one night, I said, “John, when the hell did you have time to write?” He said he’d go home at night, and even if it was late at night, he’d sit down and he’d write. I thought, boy, I was dead tired. I don’t know how you did it. The part that I wish he would have spent more time on was leading up to ’97—the things you were asking about in ’95, ’96. I really think ’95, ’96 kind of set the framework for what we had to do in ’97. I don't know if it’s just jealousy or typical Washington operatives around here—a couple of staff people have told me—that were at the White House at the time—that John maybe embellished his role more so than others. Gene Sperling was one of those who said that to me. John was pretty critical. He really kept us at it. I read it. He asked me to review it quite a few times. I think he had it down pretty good. He had steps in excruciating detail, sometimes, for the average reader. But I think the concept that even in a partisan world, you
could accomplish some good, politically, and that, as nasty as ’95 and ’96 were, out of that came success.

To your specific question, as we got into the spring of ’97, we had negotiated the blueprint as much as we could and we were having a difficult time. I was working with John Kasich’s chief of staff at the time, Rick May. We were down to the end, and we got CBO and {Ray Shapack?}, who told us that we had $200 billion more—

03-00:39:10
Meeker: That’s called [June] “O’Neill’s Miracle” or something.

03-00:39:12
Hoagland: Oddly enough, I think to {Ray Shapack’s?}—he was acting director at that time, I believe—to his amazement, I said, “Ray, don’t tell us that, because they will just spend it.” That’s probably the only time that Ray and I have ever really had any words between the two of us, because we’ve always been friends. He said, “No. That’s what our numbers are saying, and we’re going to make it known.”

03-00:39:46
Meeker: So Ray was over at CBO?

03-00:39:47
Hoagland: He was CBO. He was the acting director at CBO, because he never did become director of CBO. This was before we appointed—it would have been Dan Crippen. Your point that we had a booming economy was starting to show up toward the end of those negotiations, not at the beginning. While, yes, I’d like to say that the 1997 balanced budget agreement was the whole raison d’etre for balance, I know as well as you do that it had something also to do with the fact the economy was improving and revenues were coming in a lot better than we had anticipated. But I also would say that we did have some provisions in there, whether it was trying to limit the growth of discretionary spending. We did have some taxes in there. We had some negotiations on taxes. We had some, obviously, on Medicare. To this day, that still is a problem, because we put in what we called the sustained growth rate, SGR fix, that is going to hit us again here into this year. There were a number of provisions in there that I think we were making good policy decisions. If some of them had stayed in place, we might not to this day have the same problem we’re having with Medicare. But then when things got improving, and the restraints and restrictions of that act became, why do you need this, we’ve got this surplus, they were loosened up and that, I think, is where we have the problem today. We should have stuck with our decisions that we made back then. But when you looked out and you had a surplus, why did you need to restrain any money?
Meeker: Well, I want to get to the question of what to do with the surplus in a minute, but I do have some more questions about the negotiations. Actually, maybe another question first, which is, one of the points that I get from what Hilley has to say is that one of the differences between what happened in '95 and '97 had to do with '97, there was a lot more power delegated to senior staff people, and away from the majority leader and the speaker, down to the committee chairs.

Hoagland: What we did was, unlike '95, '97, when most of the negotiations were being done at the speaker level and a couple of the various elected leadership positions, once it was back to where budgets really—start with the budget committees. Then what we did, as if we were putting together a budget, I set up meetings every day. We would take the budget and we’d go through it. Defense, Medicare, Medicaid, health care, discretionary bills, agriculture. Right down the line. What we would do is we would have a schedule, and we would meet in what we called the hideouts in the Capitol—Domenici’s hideout. Not only would we have the chairman of the committee and their technical staff—and this is the key; the people who knew what you could and couldn’t do, and what was possible legislatively—plus CBO in the room, and then we’d have the administration. Sometimes there were quite a few people in the room. I remember on health care, Chris Jennings and {Nancy Endaparo?}, who are still around, would come and we’d walk through the health care and spend a lot of time on that. Rubin himself—was it Rubin or was it Summers?

Meeker: Rubin. He was Treasury then.

Hoagland: Yeah. Rubin came a couple of times when we got into the tax issues. It was the way I think of the way you put budgets together. You had the politicals, but you also had the technical people who could stand there and say, that won’t work, or you can’t do that, but here’s some options. We’d lay it out and we’d negotiate it out. We’d walk through the major elements of the budget and get a general agreement. We ran into a problem with Bill Archer on Ways and Means when we brought him in. He had some concerns about some of the president’s proposals. He didn’t want any tax increases, obviously. I’m trying to remember—was it the president’s hope scholarships or something that were also a problem for him? I don’t remember all the details. Of all the members, all the chairmen that we brought in—and Archer and I are friends to this day, too—he was the one who probably had the most resistance to this. Why are you guys doing this? It’s the typical thing that we talked about in our first interviews. We’re the Ways and Means. We write the laws, not you guys. He didn’t like this idea of having to negotiate. But that was the same problem he had with Gingrich, too. Gingrich was going off on his own, back in ’95, ’97.
So that process, and it was strictly a process, I think built confidence, built respect, and built us up to the point where we could actually come to some sort of announced agreement in the broad framework of a plan. We had OMB involved, so we had the technical people, and so as soon as decisions were made, we could walk out of the room and racket back up. The next morning, before we started the next round of meetings, we would go through our decisions that we had made the day before, give the members a sense as to where things were, and then move on. Representation was there from the leadership of both House and Senate staff, but they were not the decision makers. The decision makers, or the people who were guiding the decisions, were clearly the professional staff of the committees.

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**Meeker:** Another strength I found in Hilley’s book is an interesting balance between the procedural questions and the political calculus questions. A place where this comes together is the debate about whether it should be done through regular budget process or a special budget process. From my understanding of it, it went through a special budget process. But there was always this sort of escape latch or something that it could have gone through a more regular process.

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**Hoagland:** At the end of the day, I could argue that it did come back through the regular process. I think the special nature of this was that, rather than the Budget Committee going off and formulating a budget, and maybe having some brief conversations with the committees of jurisdiction, what we did was basically take that process and formalize it with day-to-day meetings, but also short circuiting this process by having both House, Senate, and the administration there, as opposed to the Budget Committee in the House, the Budget Committee in the Senate, the president’s budget, and then somehow this coming together. We basically forced that into the initial negotiations. Once we had that framework—this is why I say I still think the regular process—we went back to the two Budget Committees with that framework, and then we put it into a budget resolution that followed that outline. House, Senate, we all agreed to it. Bipartisan. It was basically cooked. But why did we do it that way? Because we needed to take it to the next step of having a reconciliation structure to get the implementation of those particular policies into actual law. Maybe it was a special process, but it came back to what I would refer to as the regular.

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**Meeker:** The reason I bring this up, and the reason I find it really interesting, is that if you take the strictly regular process, whereby the different parties are not talking to each other in advance, that’s—

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**Hoagland:** Like right now.
That sets up a situation where there are going to be show-downs, and they’re going to be very public show-downs, and so there’s going to be an understanding that one side wins and one side loses. However, with this sort of semi-special process, or at least special in the beginning, whereby everyone is conferencing together and really coming up with a shared agenda that then they’ll plug into the regular process, there’s a shared goal. There’s this fear. Hilley talks about the political calculus amongst people, particularly Gephardt, I think. There was this fear that they were just going to get shafted by the Republicans, who were going to abandon all of the work they did and throw it directly into the regular budget process. That would put the Democrats on this really difficult defensive. Maybe the way to ask this question is, given the success of those negotiations and your special regular process, does it make sense to begin rethinking the budget process in a way that maybe doesn’t make things so adversarial in the beginning?

One of those might be to have what I would call a joint budget committee, which is not a Senate and not a House, but actually start the process with the House and the Senate already working together, as opposed to Paul Ryan passing a plan that’s going to probably go absolutely nowhere in the Senate, and the Senate passing a plan that will not pass muster in the House, setting up the confrontation later on. Just bring that forward early on to the process. I’ve always thought, even to the dismay of some of my fellow staffers on the Senate Budget Committee, that maybe the time has come just to collapse the two budget committees. That might help expedite the process, get the decisions made a lot earlier, and in that process, bring the administration in. It’s kind of like what we did in ’97, unofficially. You could achieve that same kind of an outcome that you’re talking about with that kind of changing the process. I think you’re very observant to see that this is not the way we’re doing it right now. I do think it does set up a confrontation here. We should also make sure that we recognize that—not to overstate it, but we weren’t faced with the same kinds of debt limit increases, government shutdown. We had a little bit more freedom to negotiate. We weren’t being forced up against a wall. From that perspective, I think if we could get those kind of issues off here to the side, then we can really focus on what matters. Otherwise, as we’re going to see here, then those hurdles become, for some, an opportunity to play the politics and force the issues in ways that are very confrontational.

You, having your training as an economist, there’s a desire to identify factors—and us as historians—trying to get a sense of what in the past is relevant to understand in order to improve the legislative process in the present. There are those factors that are sort of trans-historical and identifiable, which is sort of a process on paper. But then there are all these other factors, like what are people feeling like? What are the different personalities involved? You could have the exact same economic circumstance, or you could have the exact same process, but the outcome
could be completely different because you’ve got a different arrangement or personalities or something involved.

Hoagland: It is, it is. You can never take the individual out of this process.

Meeker: Okay. Let me ask one more question on this particular topic, because I definitely want to move to the 2000 tax cuts—2001. There’s another book on this—well-studied—called *Done Deal* by Daniel Palazzolo. Basically, he writes that this agreement shifted budget priorities in the Republican direction. He’s saying that although it was a bipartisan agreement, really Republican budget parties won out in the end. There’s a more recent book that just came out last year, I think, by this guy Iwan Morgan, on the history of deficits, looking at presidential administrations. He’s kind of arguing in contrast to what Palazzolo said, saying, especially in comparison to what the Republicans were seeking in 1995, 1997 can be seen as a real victory for Clinton’s priorities, like the scholarship, and I think SCHIP came out that year.

Hoagland: SCHIP. Earned income tax credit.

Meeker: Yes, that was expanded. What is your thought on this?

Hoagland: My thought is that it was exactly a compromise. That we were able to find common ground. That I don’t think necessarily Republicans won or Democrats won, but the American public won because we found common ground. I look at it that we did make deficits an issue, and we did find ways to limit discretionary spending growth. At the end of the day, there was some tax cuts in there. But at the same time, the president won on some of his social welfare issues, particularly SCHIP. I don’t think Republicans or Democrats looking back could say—looking on the Medicare stuff—that they thought they won on that, if that was their goal. Because as I say, we really did scrunch down, at least on paper, and the policies were later undone by Democratic and Republican Congresses, some of those major savings. I think, overall, I would say it was a draw, which is exactly what it should have been, and that the president won some things, but Republicans won some things. I don’t think I’d go so far as some of these authors and say one side won and the other side lost.

Meeker: Okay. It sounds like compromise—

Hoagland: To me, that’s the whole essence of this silly game.
Meeker: Before we change the tape, that brings to mind this—I don’t want to misattribute it to someone—but just in these recent budget battles, there was one prominent person who came out and said, yes, I’m willing to have a conversation, but not a compromise. Do you hear that as a political bluster or do you hear that as a shifting mood over the past fifteen years?

Hoagland: Well, I’ve heard the same comment. I’ve heard the comment from some of the new members. Obviously, I’ve heard it from the Tea Party new candidates. Yes, that does seem to be part of this polarization that seems to be taking place, particularly in the House. Is it bluster? I don’t think when they’re making those statements it’s bluster. I think they really feel strongly about their ideological positions that they’re taking. There’s nothing wrong with that. I do think that, hopefully, they’ll, once here, see that the art of governance is compromise, and that the vast majority of Americans are in the middle, not at the extremes. I consider those people who are saying that they’re willing to talk but not willing to compromise to be clearly at the extreme and not understanding the way that governance historically has worked. It does require compromise.

Meeker: So you left in 2007, correct? I’m wondering if you noticed those discursive changes happening, not only at the level of the elected officials, but also the staff people who were involved in negotiations.

Hoagland: Staff people reflect their bosses. One of the things that I was always careful not to get out—sometimes I wasn’t successful—staff are not to get out in front of their boss. We do not hold the election of certificate. Our bosses are the ones that have that hanging on their wall. I still have a lot of friends up there, a lot of staff that I still know. I think, at the end of the day, they have to reflect their bosses’ wishes and desires. To the extent their bosses are, damn the torpedoes, full speed ahead, we’re not taking any hostages—if that’s their attitude, and the staffer is still there, then they’re probably going to have to reflect that in the work and try to carry it out. If not, they will be like me. Say, I can’t operate in this environment. It’s not the way I think it should be operating. Staff do not have that flexibility maybe that I had, because I had been there for a long time and I had a place to go if I wanted to go. I could retire. I think it’s true that the staff reflect their members. There are some that probably would not like to be categorized as ideological. Again, I don’t know how you avoid it. You work for a member. You have to support the member. You can argue with the member behind closed doors, and you can make your case as best you can, but at the end of the day, they’re the ones who vote and they’re the ones who have the final say.
Meeker: Let’s talk about the 2000 presidential election. Maybe just kind of in advance of this, or setting it up, the budget went into surplus in 1998 and stayed there for the next four years—’99, 2000, and 2001. I was in grad school then, and I remember all of the television commercials, and everyone was talking about IPOs. People were talking about the new economy, that it’s going to be growing forever, and there was this real widespread cultural sensibility that recessions were a thing of the past, and because of globalization, because of the new technology, that things were going to grow forever. So I understand the sensibility that people could have imagined that we were entering into an era of budget surplus. That deficits were a thing of the past. From your perspective, working on the Senate Budget Committee, how widespread was that feeling? Also, how widespread was the more Cassandra or realistic sense that, well, deficits are really the norm, and that although we’ve had a short run of surpluses, we can expect deficits to return either because of economic conditions or because of the spending and tax-cutting habits of the elected officials?

Hoagland: After all the battles that we’d gone through, leading up to and getting to the 1997 agreement, I think there was a sense of, oh my gosh, euphoria, we don’t have to deal with all this in the future. Great. Let’s move on. I think there was maybe unrealistic expectations as to the future, in terms of our spending. It was complicated by the fact that, during the 2000 presidential election, even Al Gore was going forward with his budget campaign documents that he’d put out by using some of that surplus for expansion of Medicare, prescription drug benefits to the elderly. George Bush, the second one, camp 43 comes in, and same thing. He’s looking at surpluses as far as the eye can see, and he’s looking at returning that in the form of tax cuts.

Meeker: These are based on CBO figures?

Hoagland: That’s the issue. We had all used throughout the debates the independent, bipartisan Congressional Budget Office, and that’s what they were saying. Those of us who looked at it may have said, boy, I hope you’re right. We were not in a position, Congress was not in a position—that’s what CBO says. As you’ll recall, Alan Greenspan similarly went through this exercise. In his book, he talks about, I questioned the numbers, I went to my Federal Reserve analyst. I said, are they right? Is this possible? His biggest fear, of course, as I think we discussed the last time, was that we would not have any debt. We’d eliminate the debt, and how would monetary policy function without the ability to manage our debt? He came to the Budget Committee in the winter of 2001. Same issue. I had a conversation with a current senator, who was on the Budget Committee at the time, the week before last, when they were still in session. Senator Olympia Snowe from Maine. To her credit, and I think to Domenici’s credit and others, they said, okay, we see the numbers. We see
what’s being projected here. But shouldn’t we be a little bit cautious? Both Olympia, as well as Greenspan, were talking about a triggering mechanism. Okay, we can put this in, but let’s have kind of a look-back mechanism, because if we don’t, if this doesn’t transpire, we could be in trouble. The tax kind of guys got involved and said, no, you can’t do that, because that creates uncertainty in terms of your planning as a business going out into the future. I think that was the underlying argument that he ended up saying, if it doesn’t turn out, we’ll just revisit the whole thing, but let’s put them in permanently. It was a ten-year.

I think I mentioned this to you. I don't know. I may be repeating myself. In January of 2001, Larry Lindsey—I know I mentioned this to Domenici just a couple of weeks ago, because he was being interviewed on a similar kind of subject matter. Larry Lindsey, who was the head of the National Economic Advisors, I believe, and he was one of the economic advisors during the campaign, came to see Domenici, and I was in the room. He was laying out this, “Listen, we’ve got this surplus, and as far as the eye can see, we need to return it to the American public in the form of a tax cut. We don’t have to create a deficit, because we’re only reducing the surplus, we’re not creating a deficit. And, in fact, we can reduce it and still maintain the surplus and social security.” Domenici, to his credit—and he doesn’t seem to remember this, but I remember it. I was there. I guess I had come to the side, okay, we’ve got these surpluses. Let’s go ahead, put the tax cut in. To Domenici’s credit, said, “I’m no so certain.” He raised a yellow flag. “Are we certain? Hoagland, you and I have done so many budgets over the years. We know how quickly these numbers can change. Are we certain?” While there may have been this general public and general membership euphoria that, great, now we can spend money on tax cuts, we can spend money on prescription drugs, we can do all this stuff now that we never thought we’d have the resources for—that seemed to dominate. Obviously, for a member of Congress, it’s a lot easier to talk about those kinds of policies as opposed to the policies associated with paying and restrictions.

To answer your question, Martin, my sense is that there was an unrealistic opinion that this was fact. Not that these were projections; this was a fact. It did drive the decision making there in the winter and spring of 2001.

One of the reasons I ask this is because, coming from California, we felt that the bubble burst in March of 2000, even before the general election. Since so much of the revenue had to do with capital gains and millionaires through the stock market, I wonder if, looking back upon it—there’s certainly criticism to be spread amongst elected officials for having rose-tinted glasses on—but I wonder if there’s thoughts about the way in which the CBO could manage their process a little better. In hindsight, were there conversations about, gee, how did this go so wrong?
A couple of things. Number one, to CBO’s credit—I don’t know if it began in 2001 or earlier—all of their projections, the infamous—what we call the fan chart—this is the chart that shows the probability going—I’m long past having had my statistical course—but the standard area of the estimate as you go out into the future. To CBO’s credit, they did provide a fan chart on these projections. The problem with the fan chart is it could have been even more or it could have been seriously inaudible. I think the first mistake that we did in Congress was to make a ten-year budget resolution with those forecasts, because that was the 2001 tax cuts that expired last year, 2010. Forced it into a reconciliation bill. I think if we had given a little bit more attention to the fan chart, there might have been a little bit less enthusiasm for going that far out into the future without revisiting it. The response always is, of course, that a Congress can always revisit its actions. Well, yeah. It’s kind of hard to revisit tax increases when you’ve got tax cuts on the table.

I think the real criticism goes back to, it was not a new economy. It was not some new scenario out there that none of us had ever experienced before. That recessions were not a thing of the past. That there wasn’t instability that always could create. And then, of course, the big thing is the uncertainties brought about by things that nobody could predict. I don't know if they could predict it, but 9/11 is an example. I think that it was a failure on the part of the policy makers to be a little bit more cognizant of the uncertainties involved in those projections. But again, it was the people we’d always depended upon. Not just CBO, but the administration, too, and the feds.

This question of putting in a mechanism, what was called the trigger, that would have allowed for some flexibility had the economy gone sour, this was one of these fifty/forty-nine votes, if I remember correctly.

You’ve got a good memory. I don’t remember.

I don’t remember, it’s just a matter of looking. My memory is definitely not that good. I’m wondering if, from your memory, if you can recall if this was a legitimately close vote or if it was—

No, I think it was.

It was? Okay.

I think it was. Again, I’m fuzzy on this. I should go back and look at that vote. There were those who wanted to be a little bit more cautious. But the argument, again, was you can’t add that uncertainty to people who make plans
out into the future with the possibility that that decision they made may be undone by an automatic trigger of some sort. I think that was the major factor that prevented any kind of trigger. Domenici—I know we were inclined to give it a serious consideration.

Meeker: One of the behind-the-scenes things that is talked about is that Paul O’Neill, Treasury secretary then, was advocating this, against the wishes of his administration. Did you or Domenici have any interaction with him or was it mostly coming from people like Olympia Snowe?

Hoagland: When did Paul O’Neill leave?

Meeker: He was, I believe, asked to leave shortly thereafter.

Hoagland: In spring in 2001?

Meeker: No, no. I think that it was probably 2002 that he left [O’Neill’s resignation was effective December 31, 2002].

Hoagland: Did he make it that far?

Meeker: Yeah, I think he was there at least a year.

Hoagland: We had worked with Paul O’Neill. I think he was shut off. The administration really did shut him down. All of our dealings were through, whether we wanted to or not, and whether Domenici had any private conversations with him off to the side, I don’t know. It was clear that Paul had put himself in a tenable position. He was the one who had made the arguments about the deficit. Continued to make the arguments. I still respect him for all that. But no, the official channels were not through the secretary of the Treasury.

Meeker: Who were they with, then?

Hoagland: Larry Lindsey.

Meeker: I think he was at the CEA at that time? [Larry Lindsey was then Director of the National Economic Council]

Hoagland: Was it CEA?
Meeker: I don't know. I’d have to look at it.

Hoagland: Yeah, probably.

Meeker: What about some of the more political operatives, like the vice president? Was he engaged with Domenici on some of these issues?

Hoagland: He was very much engaged when it came time to the floor votes on our budget, and because this was obviously the point in time where Jim Jeffords was uptight about this. I think he was probably one who probably voted for the trigger. The vice president spent more time on the Hill than anybody else as we got closer to those votes. I really think Cheney—I don’t know of anybody else that I can think of, at that level—because it wasn’t the secretary of the Treasury, that’s for sure. And Larry Lindsey. Those were probably the biggest political operatives that we had to deal with.

Meeker: What was Cheney like as a negotiator or as a whip, I guess?

Hoagland: Tough, tough guy. The three or four meetings I was in with him—quiet. He didn’t yell, he didn’t scream, but boy, he’s pretty matter-of-fact. There’s no kidding around with him. Let’s put it that way. There was no kidding around with him. He worked very hard to keep Jim Jeffords with an “R” behind his name. Jeffords was just upset as—more so over something called IDEA, the entitlement program for special education, and the fact that our budget didn’t fund that particular program.

Meeker: I think Daschle talks about that a little it in his memoir. Another thing he revisits is also the speculation over John McCain switching parties. Do you think that that was ever a serious consideration?

Hoagland: I don’t think that was ever serious. I don’t think that ever was going to come to pass. Jeffords was considered a moderate Northeasterner, all that. There was always a risk there. John Chafee was always talked about as one. I’m trying to remember—John passed away—if he was around then. Olympia Snowe, and then Susan Collins. The Northeastern bloc of moderate Republicans were always the ones who, if anything, were the ones who were likely to switch, long, long before John McCain ever would.

Meeker: In 2002, the PAYGO rules and a lot of the enforcement mechanisms of the Budget Enforcement Act from 1990 expired. In the record, I find very little
movement toward reinstating these. By that point in time, the budget had already gone back in deficit, or was projected to.

Hoagland: In 2002, I would have moved over to Frist’s office, first of all, and—

Meeker: Maybe we can foreground this discussion, because I want to ask you about the 2003 cuts.

Hoagland: As it relates to 2002, I just want to make the point that even though the statutory PAYGO had disappeared, we still had PAYGO rules that we applied through the budget resolution. We still had, at least in the Senate, the sixty vote points of order against violating it. We didn’t have the sequestrial mechanisms and all of that.

Meeker: So it moves from statutory—this has always confused me.

Hoagland: It moved from statutory to what I would call congressional enforcement mechanisms on PAYGO. It was just strictly a point of order. There was not the threat of a sequester.

Meeker: How substantial is that difference? Is it a make-or-break difference or—

Hoagland: Given that the PAYGO sequester mechanisms were never really implemented to any extent, I don’t think it makes that much difference, personally. Or did make that much. Now, if we really had real PAYGO and real sequester mechanisms, then I would argue yes. But we never seemed to get around to actually having a real sequester mechanism. I think the sixty-vote point was just as effective as the regulatory, as well as the statutory.

Meeker: It wasn’t just the expiration in 2002, but it was also the five-year window, so I guess the provisions really started to expire beginning of ’95. People didn’t have to budget out. A historian would look back and see it doesn’t seem like just a coincidence that budget surplus happened at the same time that this statutory mechanism was in place. When it began to fall away, so did the budgetary discipline that allowed for surpluses.

Hoagland: Again, I would say that overstating the value of the PAYGO procedures, because, of course, it was overtaken by a booming economy, which kind of offset most of this. But yes, I think PAYGO has some benefits to it. The problem with PAYGO is that—just to be clear—PAYGO does not reduce the deficit. It just keeps it from getting worse. In fact, I’m working on something
with Joe Minarik and the Bipartisan Policy Center right now. We call it SAVEGO as opposed to PAYGO, where you specify a dollar amount. Because PAYGO, to me, always was something that came along after the fact. Okay, you agreed to have this amount of spending on Medicare. Whatever happens is Medicare, fine. But if you come along with a policy to increase that, then you had to offset it. Well, just simply, PAYGO, from my perspective, is doing nothing more than just trying to maintain a decision that had already been made, whereas a SAVEGO would specify how much you have to actually save from where we are today without adding to the deficit.

04-00:21:40
Meeker: It sounds like then it’s a little bit closer to Gramm-Rudman-Hollings.

04-00:21:43
Hoagland: It is closer in the sense that you have a fixed deficit target, but we’re getting away from deficit targets.

04-00:21:51
Meeker: Saving target.

04-00:21:52

04-00:21:59
Meeker: Do you have any legislators who are supportive of this idea? Is this the Gang of Six?

04-00:22:04
Hoagland: They’re very much aware of this proposal.

04-00:22:07
Meeker: All right. I won’t ask you any more about it. I don’t want to jeopardize something like that. When you switch over from the Budget Committee to Lott and then Frist’s office, how did this change your work? The nature of your work.

04-00:22:22
Hoagland: Well, not a lot. First of all, I’m not the staff director of the Budget Committee, so I don’t have the staff that I once had, and so I have to depend upon a lot of old staff to keep me up-to-date on issues. Generally, my responsibilities there were more as an overseer of all the various pieces. I was considered, again, one of the outliers, because I was very concerned about the deficit. I think when Senator Nickles came in as chairman, they had this theory that we could cut taxes and the economy would grow. I ran up against that wall. I made my points. Senator Frist and the administration at that time were not willing to recognize my concerns, so it was a lot harder for me to impact those decisions. It was more a procedural position. A position of making sure that things are running appropriately on the floor. In terms of forcing the policy, I could make my arguments, but I had no support from either the administration, Andy Card as the White House chief of staff, or even my boss. He was fine
and he let me have my say. I know Senator Frist took some angry calls from
the White House about, why is Hoagland saying what he is about the deficit,
and why isn’t he more supportive? But Frist and I got along fine. Frist was
okay with me raising red flags.

04-00:24:23
Meeker:

One of the things that we’ve learned from our interviews, and I hope I’m not
overstating this, but looking back to the Reagan Revolution in the early 1980s,
a lot of people who were involved in that and kind of led the flowering of
supply-side economics, at the time, and subsequently since then, have said
that it wasn’t really a serious idea. That it was more a political move to
facilitate the shrinking of government, and that they really didn’t believe that
cutting taxes would be—that revenues would be replaced by increased
economic activity, at least not to the level that they said it would. I believe
Stockman said something along these lines, and I think that Laffer has even
said that that was just a sort of notion. It seems like, in the early 1980s, it was
sort of acknowledged as a fun idea. But fast forward to the Bush
administration, you hear that it’s now become almost like an economic law.

04-00:25:45
Hoagland:

I think the problem with it is oversimplification. I agree that there are certain
taxes—probably the capital gains tax, some of the investment taxes—I think
there are things that one can make the argument that that does have
disincentive effects. I think the problem is they aggregate it all up and say,
we’re just cutting taxes. No. Reducing taxes on the rich I’m not convinced is a
necessarily economic expansionary issue. After all, the marginal rate of
consumption at that particular is in fact going to be much better. Lowering
taxes may be at the other end of the income distribution. It’s not as simple as a
press release—cut taxes, the economy will grow. It depends on what taxes
we’re talking about, when we’re talking about, and from what level. I think
cutting taxes that were maybe 60, 70 percent during the Kennedy years
probably did have a beneficial effect. However, when you’re at 30, 40 percent
on the marginal tax rate, I’m not quite sure, at the margin, it makes that much
difference. It’s a nice theory, but it’s oversimplified in what its impact would
be.

04-00:26:58
Meeker:

Yeah. So, for instance, on the highest marginal rates, cutting it from thirty-six
to thirty-three isn’t really going to spur economic activity, but it will have a
substantial impact on federal revenues.

04-00:27:07
Hoagland:

Yes. Again, on the capital gains, I think it’s possible. I would say reducing the
corporate tax rate from down to 27, 26 percent today, relative to—you talked
about it at the outset—the international competition that we have, even at two
percentage points might make a much bigger difference than lowering the top
marginal tax rate from thirty-six to thirty-three or whatever for the personal
income tax. Again, as I say, I’m not that good enough of a tax lawyer or tax economist to figure out each, but I think it’s an oversimplification.

04-00:27:52
Meeker: Well, then let’s talk about the 2003 cuts. I know that you were no longer on the Budget Committee. When this proposal came out, U.S. was in or just recovering from recession. It was already after 9/11, so there were additional security needs, and Bush was getting ready to invade Iraq. Not a typical time for a big tax cut. What did you personally think of this proposal when it came out, and then how did you respond to it professionally?

04-00:28:29
Hoagland: The tax cuts in 2003 carried with them—I’m pressing my memory on this, but I thought there was a major focus on the marriage tax.

04-00:28:41
Meeker: Yeah. And also speeding up some of the timeline in 2001.

04-00:28:48
Hoagland: Yeah. We were in a deficit, or awfully close to a deficit situation. While I had some concerns about the 2001 tax cuts, the ten-year tax cuts, we made a very clear argument that we were reducing the surplus, and we did it through reconciliation. Even that was pushing the envelope there. But to use reconciliation, which was used, I believe, for the 2003 tax cuts, to basically increase the deficit, I was apoplectic. As I say, I was in a different position. The leadership—I can’t remember. I guess Kay Bailey Hutchison from Texas was really pushing the marriage penalty issue, changing the tax rates, pushing them up faster—that was Senator Nickles on the Budget Committee. These were tax cutters. They may not believe it, but at least they were still supply-side type people, particularly Nickles and Kyl.

04-00:30:19
Meeker: Would you characterize them as supply-siders? There is this idea floating about that you cut taxes, you increase deficits, and therefore what follows is a necessary retrenchment in the activity in the federal government.

04-00:30:40
Hoagland: I put them much more on the side of, cut the taxes and you’ll end up spurring the economy. Down deep, maybe underneath, maybe they think that, that somehow that’s going to lead to greater restrictions. It doesn’t appear to me that they were successful, if that was the case. Maybe they want to go back and rethink it. I have to be careful. Senator Nickles retained counsel here for me, only because he has some good health care people. He was a businessman. He was on the Finance Committee. He was really one who believed that lower tax rates meant more economic growth. I never really thought of him thinking that, this will lead to deficits, and I’ll have to cut more spending. There may be an element of that. Clearly, tax cutters usually are also people who want lower-sized government. But, boy, it’s a crude and
very ineffective way to achieve that deficit reduction, seems to me, by putting us into deeper debt.

I’m forgetting if we covered this in the last discussion. Throughout your years in government, what were the main influences on your thinking? Were you taking cues from think tanks at all, or specific people?

Oh, good question. Who influenced me? There’s no way, it seems, in thirty-three years of government service, you can’t be influenced by certain people you work for. In this particular case, I think, over the years, I’ve been very much influenced by, I guess, the principles that were established with me at the Congressional Budget Office when I started with Alice Rivlin, Bob Reischauer. Particularly Bob and Alice to this day still influence me in terms of my thinking. Senator Domenici, obviously, was another. I have respect for people who love their country, and—it sounds corny—but really do want to see the country survive and grow and continue to be the magic light on the hill, or the beacon on the hill, or however we phrase it. I was very much influenced by Bob Dole, Howard Baker, Sam Nunn, Dick Lugar. You might get the sense that these are people who were not necessarily show horses, but work horses. Pat Moynihan. I know he ended on a very bad note, but Bob Packwood. These are people who I respected when we got into discussions and debates. Some of the think tanks in this town—I probably am the Brookings, the AEI, even though those two have different philosophies going forward. I have never been a Heritage. In fact, I always got people mad because I called them heretics. I’m not a Cato person. Stanford and Hoover. John Cogan was somebody that I respected and still do. I worked with John Taylor early on, because he was part of the Dole campaign. John seems to have gone a little bit over the deep end here lately. There’s a whole panoply of people over my career that I think have been helpful and guided and I’ve respected.

Well, one of the issues we’ve been dealing with in this project is the emerging notion, it seems like, that’s taken hold of Washington, that large government deficits have a negative effect on the Treasury market. They’ll produce a rise in interest rates. It seems like a lot of people we’ve interviewed said that this understanding has become more sophisticated over time. I was wondering if, from your perspective, there’s been an evolving understanding of the importance of public finance on the capital markets, and to what extent that informs thinking in Washington.

Yeah, it’s a good question. When I left CBO to go to the Senate Budget Committee, one of the first major issues that I focused on was the impact of deficits on interest rates. The traditional theory of crowning out effect. You don’t hear that as much as you used to, but I think that is still there. As we
discussed in our first interview, my background was in agriculture. When I put the equation up of GDP equals G plus whatever, and then you had the X minus M—export minus M—that X minus M was never an issue for me. When I was going to school and was back in school, we never had much of an issue there as it relates to the trade deficit.

The one thing that evolved in my career here in this town was the international aspect of this. As I’ve always said, if I had a chance to go back to school, boy, I would focus on the international, because the capital flows there are so important now. Whenever I get into this debate about the impact of the deficit on interest rates today, the one thing that’s changed for me dramatically is where those flows are coming from. Even though it would be nice to say that 50 percent of 40 percent of our debt is borrowed from overseas and we don’t have control over that, at the same time, when I look at it—I may have mentioned this last time—we still look like the best horse in the glue factory right now. Why are interest rates so low with deficits so high? To me, it has to do with this capital flow issue, which has really dramatically changed in my time in this town. I never even thought about overseas capital flows. We’ve become a much more global economy, and therefore I think our fiscal policy issues have not kept up with the nature of what’s been happening on a global basis.

Sharma: Sure. The global savings has allowed us to avoid dealing with the hard questions.

Hoagland: That’s right. Perfect.

Meeker: Let me just follow up, and this could probably be our last question. I want to let you get to your phone call. This question of the emerging global capital markets. The U.S. account deficit is growing monumentally in the 2000s, not only with the trade deficit, but also the ownership of U.S. bonds by foreign investors. Do you recall, prior to your retirement in 2007, discussion amongst this? Was it on the political radar?

Hoagland: No. Well, that’s not fair. There certainly were well-respected economists, Martin Feldstein and others, who would come to town and who would make the arguments and try to present it. They never could seem to make it in a way that people understood on Capitol Hill that this was a critical issue.

Meeker: Is it because there’s a lack of constituency? That it’s not immediately affecting U.S. citizens?
First of all, there’s a little bitterness, I think—foreigners, and we’re exporting our jobs overseas, and we don’t want to deal with them. There tends to be a protectionism type of philosophy that I think, if you’re a politician, you don’t get any votes from overseas, so you tend to get this myopic opinion about our global role. I don’t know if I can answer the question. I just sense here that it’s a difficult concept, in some ways, for people to understand, let alone members of Congress to understand. As I say, there are those up there who I think understand it quite well. Conrad, I think, understands it. No, I can’t say that it received a lot of attention on Capitol Hill. If it receives any attention, it’s more in the context of taxes and bringing back earnings overseas to tax them here one time. It’s not the issue that they really focus on. I think it’s critical, because it clearly relates to our global standing, our hegemony in the world market. But you’re right. It’s a big issue that I don’t think our fiscal policy mechanisms have really brought into the decision making process the way they should.

I can get extremely pessimistic. What S&P did last week is just a shot across the bow. I don’t think ever in the history of the country have we had that kind of a one-in-three chance that we’d be downgraded. I think it’s getting very risky. At the same time, we have to believe as a country that we will meet up to what’s required to move forward, and while it’s extremely partisan, I still think that, at the end of the day, we’ll overcome these challenges and move forward. I have to, at the end of the day, still remain optimistic about the country’s future and where we’re going.