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James C. Miller

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

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

Interviews conducted by
Patrick Sharma
in 2010

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Interview #1 August 24, 2010

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01-00:00:11

Sharma: This is Patrick Sharma. I'm here on August 24th with Jim Miller, former director of the Office of Management and Budget in the Reagan Administration. Tape one. Mr. Miller, I was hoping we could get started by talking a little bit about your career before entering the Reagan Administration: how you got involved in politics and then specifically about your experiences in the Ford Administration. I was hoping you could sort of just generally walk me through your time at the University of Virginia and how you became interested in issues related to the budget during that time.

01-00:00:57

Miller: I was interested in politics from high school. Never got involved in it very deeply but interested in it. I went to the University of Georgia and I got a bachelor's degree in economics. I worked on a master's degree while my wife, a year younger and a year behind me in school, finished her bachelor's degree, and then went off to the University of Virginia and there studied for three years. Got a PhD. But I had several professors who had been involved in politics at one point in another. Warren Nutter had been an advisor to Barry Goldwater. But on the whole, the program was not geared to politics, at all. It was just a very rigorous economics program that I went through. But there was a little interest in politics while I was there. And then I went off to teach at Georgia State University. Went back home, I'm from the Atlanta area, and taught there for a little while. And then I had an offer to join the Nixon Administration and that seems more glorious than it really was, because I just became a staffer at the Department of Transportation, though I had some visibility because of my connections and what I knew. And so I did that for a while and then went back to academics and taught at Texas A&M University. I am an academic by training. I've always considered myself an academic. But there I joined one of my former colleagues at the University of Georgia, a fellow by the name of Phil Gramm teaching at A&M. We taught and we were both interested in politics and so I continued to have an interest in politics. Wrote some books and such as that.

Then I was invited by Herb Stein to join the senior staff of the Council of Economic Advisers. But I was really a microeconomist, not a macroeconomist, and I wrote the chapter on regulation that appeared in the 1974 edition of the Council of Economic Advisers *Annual Report*. Then I was asked to be assistant director of the Council on Wage and Price Stability with a portfolio of government activity that caused inflation. It was a very simple algorithm. Benefit cost analysis. Government does things, regulates in ways that generates more costs than benefits. It's inflationary and, vice versa, it's deflationary. So we picked out a lot of things that the government did that really cost a lot or could have been achieved at a lot lower cost and pointed

these things out. Just before I took this on, of course, President Nixon resigned. I remember being in my office at the Council of Economic Advisers and watching it on television. I was invited to go over and sit there in the East Room while he gave his oration. But I didn't. I said, "Somebody's got to hold down the fort over here," so I was in the old Executive Office Building collection when he said goodbye.

I worked for President Ford at the Council on Wage and Price Stability and then when President Carter was elected I went over to the American Enterprise Institute, which was just a wonderful place at the time. Had extraordinary people. Jeane Kirkpatrick was there. Austin Ranney was there. Jude Wanniski later joined. A number of people that went on to government later—Rudy Penner, who became a CBO director was there. Office next door to me. So we had a lot of activities. Mainly my focus was government regulation again. But I had exposure to a lot of macroeconomic issues and things of this nature.

In 1980, Marty Anderson called me up and got me involved in the Reagan campaign. I was on a transportation taskforce and the regulatory taskforce before the election and then after the election I was asked to join the transition team and to head one of the transition programs. I was actually asked to head the transition team on the Postal Service. I told them I really wasn't interested in the Postal Service. So they said, "What would you be interested in?" Then I thought about it for a while and I thought—there was a range of agencies—but one agency that had provoked my interest because it had gotten itself in so much trouble was the Federal Trade Commission. Also it's an agency I didn't know much about or a lot about and I felt I could review it and see the forest and not get tied up with the individual trees. So I called him back and said, "What about the FTC?" They said, "Well, I think maybe we have somebody already on line to do that but let me check and call back." They called back later and said, "No, it's yours."

So I headed the FTC transition team. We made a report. I can assure you no one in the group leaked it, but that report was leaked to the press. I think it was probably leaked by the transition team because it was a really good report. And some very good people worked on it. One succeeded me, not directly, but in the Bush 43 Administration, to become Chairman of the Federal Trade Commission- Tim Muris. And Carol Crawford, who became a member of the International Trade Commission. Tom Campbell of California. Actually, he joined as we went over to the FTC a year later. He was not part of the transition team. But in any event, he had been a White House Fellow.

But I had no design on the Federal Trade Commission. I was either going to form a consulting firm and make a lot of money or I was going to join the Reagan Administration. But it depended on what was available. I got invited to do a number of things but I chose to go to OMB to head the regulatory reform program. In fact, Boyden Gray and I actually wrote the Executive

Order 12291 that set up the whole regulatory reform program while we were in the transition. We handed in the report on the FTC a couple of days before Christmas and my wife, children and I went to Georgia to have Christmas time with our families. But I got a call Christmas Day asking me if I'd come back and head up the regulatory effort and I said, "Yes," and I got on a plane the next morning and flew back. So Boyden and I drafted the Executive Order. In any event, I headed the regulatory reform effort at OMB and we organized things in such a way that the Vice-President was head of this Presidential taskforce on regulatory relief and I was the executive director of it in addition to being an associate director of OMB. And we had a lot of fun. Did a lot of things. President Reagan signed the Executive Order. Shook up a lot of agencies, etcetera, and changed the way things are done.

I got a call in April saying, "Would you go over to head the FTC?" And I said, "I can't, but thanks. I appreciate it. But I've got my hands full here. I haven't finished all this." So I cut a deal with them that there was another commissioner of the FTC whose term was up in September and I agreed that I'd go over then. That the President would nominate me to succeed this person. So I knew as of April that I would eventually be at the FTC. So I went over to the FTC and we spent four years there. There were some extraordinarily bright people. Bob Tollison, with whom I'd gone to graduate school. He was a professor and of some eminence, an economist. And Muris and Jack Carley. Just a whole bunch of extremely bright people. One of my attorney advisors just a few years ago was chairman of the American Bar Association's anti-trust section. Just brilliant people.

So we did four years of that and I promised my wife that we would leave and go back in the private sector. Money was running out. Our children went to private schools. It was very expensive. Anyway, about that time I was actually negotiating with some people, David Stockman stepped down and I got a call about succeeding him. We talked it over, etcetera, and sat down with the children one evening and told them, "It's going to be kind of tough. We'll have to borrow money and so forth." And the next morning our elder daughter, the one that is now a physician in California, sat on the stairs with her head in her hands and my wife said, "What's wrong, Katrina?" "I don't want to be poor." Oh, extending on for another three or four years. Three years it was. Put us in some considerable debt and all that.

So anyway, we did it and that's how I got to OMB. But I had some very definite ideas that were a bit different from those of my predecessor, David Stockman. And, very fortuitously, I had this group of extraordinarily bright people who would come over to OMB with me.

01-00:10:58

Sharma:

From the FTC?

01-00:10:59

Miller: From the FTC. David had hired some very smart people that had been there for a very short period of time that wanted to stay on. There were some others who were leaving for other assignments in the Administration and I brought basically my senior staff from the FTC over with me. They just did remarkable jobs. Just remarkable jobs. I asked Joe Wright, who had recently come over as deputy to David, to stay on. I really liked Joe and thought a lot of him. He tells a story about one of the lawyers that I brought over, Carol Crawford, who had been director of the Bureau of Consumer Protection at the FTC. She was really a skinflint at dealing with the agencies. Joe said, "If you can imagine being in a large room and somebody has a handful of dimes and they throw them up in the air, if Carol Crawford's in that room, not one dime will hit the floor. She'll grab them out of the air." So just extraordinarily bright people. Wendy Gramm, who's a professor, Phil's spouse, professor in her own right, and went on to be chairman of the Commodities Futures Trading Commission. She did a marvelous job. She was the head of OIRA. So in any event, I had really great colleagues. We went over and took over.

01-00:12:31

Sharma: Took over OMB.

01-00:12:32

Miller: But I'll tell you one little vignette about things. I went over for a briefing from the staff. You know how you have to play this game. You're up for confirmation, you haven't yet been confirmed, so you don't want to act like you're already in the job and so you have to play a delicate thing. But I went over for a briefing because it was getting very close to my making the transition. I had had my hearing but I hadn't been voted on. And so I was over there and late in the day the guy was saying, "Jim, this is a four." Whatever. "This is just a three." Some program they were talking about. I said, "What do you mean by being a three?" He said, "Well, \$300 million." And I said, "My gosh." The Federal Trade Commission budget was like seventy million at the time. This is just peanuts. This is a four or something like that. So the principle is very much the same in terms of you're carrying out your fiduciary responsibility to the taxpayer, except the numbers are much, much larger.

01-00:13:44

Sharma: Much larger.

01-00:13:43

Miller: Yes.

01-00:13:44

Sharma: Would you mind going into detail a little bit about how your views were different from David Stockman's?

01-00:13:53

Miller:

David is a brilliant fellow and when I was at OMB I learned a lot from him, though we had very little contact. I spent far more time with Vice President Bush than I spent with David. Occasionally David would call me up. We all just worked like crazy. We worked twelve, fifteen hours a day. David would call me up seven, eight o'clock at night and say, "Let's go get dinner." So we went over to a little restaurant on 17th Street. He'd tell me what he was doing, he wanted to know what I was doing. He'd say, "Okay, Jim, you run the regulatory side, I run the budget side. Okay?" "Okay, fine, that's good." So we had that. He was a very substantial advocate of, I would say, what became known as Reaganomics. But he got blown away by the turndown in '81-'82, even though in '80 he had written about it. He and Jack Kemp had written this piece about the economic Dunkirk. I just think he lost his nerve and he became then an advocate of tax increases.

And as illustration, before I went over to OMB, David had actually left and was starting writing his book. I invited Phil Gramm and David, they worked very closely together on the Hill, and we had lunch at AEI. The FTC didn't have an executive dining room. But my old place, AEI, would let me come over and have lunch their building. So we headed over to AEI. We went to get our buffet and David had gone back and sat down at the table and I went to sit down at the table and he all of a sudden says, "You know what your job is? You know what your job's going to be?" I said, "Yes, I'm going to be budget director." He said, "Your job is to persuade the President to raise taxes." He was just as adamant as he could be about that. Then Phil overheard it. Actually, Phil called me later in the day and said, "Don't get too taken up with this. He's on this tear about tax increases."

Anyway, for two reasons I opposed that. Had a different view. One reason is the President of the United States didn't want tax increases. He opposed tax increases. And I think you owe it to the President. You realize that you're not entitled to that position. The President chooses you for that position. You aren't elected President. The President was elected President. If you cannot in good conscience carry out legal policies required by the President then you're in the wrong job. Just have to leave. You have to leave. Really. And the second reason is just intellectually I oppose tax increases. You see, I come from a part of economics known as public choice. My focus while in graduate school was in microeconomics and economics and regulation and such as that. But I had enough exposure to Jim Buchanan, who won the Noble Prize in '86 and to Gordon Tullock, who deserved to win—still deserves to win the Noble Prize in my mind—and others. You pick it up by osmosis, if nothing else. Seminars every week, etcetera, on various topics but a lot of them touching on political economy, if not public choice. And back to an issue that you're no doubt exploring, and that is that if you look at the way in which people make decisions collectively, there's a bias towards increasing the size of the collective. To some extent, increasing taxes to the extent that people believe that it finances increased size of government will always be a crutch for those

who want to expand government and if you look at the body of public choice literature, you have to draw that conclusion—there is research all over the map. There are a lot of people who believe this and believe that. It's not ubiquitous at all. But you have to come away with a feeling that our decision making processes lead to a government that is larger than optimal and wasteful. So intellectually I was not in favor of tax increases.

Like I said, I had been a colleague of Jude Wanniski's. Jude had been at AEI for a year. We actually had substantial disagreements. Jude expounded and misused the Laffer curve. And Art's an acquaintance, friend of mine. Jude draws this single line. I said, "Jude, there's a different line for every structure of taxes. You change the structure of tax rates, you'll get a different line. Economy grows, you get a different line." It's a functional, not a function. And, also, Jude identified the point, the peaking point, as the bliss point. He said that's the optimal size of government. "No, Jude, that's not the optimal. There's no empirical basis for making that assertion." Anyway, I thought about those issues and I was pretty sure that the size of government was too large.

And even though the right kind of tax reductions will actually generate more revenue for the federal government, in most people's mind if you increase taxes, that's just a license to expand spending. And I'm very much a disciple of Milton Friedman. The first book I ever wrote was on the military draft and Milton Friedman gave me a wonderful quote for the book. And so did John Kenneth Galbraith. In any event, Friedman was making the point straightforwardly that it's not taxes that measure the size of government, it's spending that is the measure of the size of government. If you think about it, government can acquire command over resources in a number of different ways. They can tax and spend. They can just print money and spend. They can regulate, which is basically determining where resources go. And that's akin to conscription.

01-00:21:32

Sharma: It's a type of tax.

01-00:21:35

Miller: Yes. It's just an implicit tax. So if you add cost of regulation in, as well, as some people have, you get a much larger number than if you just looked at raw spending.

01-00:21:48

Sharma: And so in your mind, someone like Stockman, would you say that he was focused too much on the deficit per se—

01-00:21:57

Miller: Yes.

01-00:21:57

Sharma: —as an indicator? How does the actual issue of the deficit figure in?

01-00:22:02

Miller: It was important to be concerned about the deficit, and every once in a while some Republican said, “Well, we shouldn’t worry about the deficit.” Then the conservatives in the House and the Senate would go crazy because they didn’t want that to be the touchstone. You can be preoccupied about the deficit to the detriment of good policy. If you just think about it, let’s not think about today’s circumstances, which are quite exceptional, but the circumstances then. The real key was economic growth. The tax code is income elastic. Just as a general proposition, if the economy grows by one percent, revenues to the federal government are going to grow by more than one percent. And the tax code was quite elastic, especially before 1986, and so with the economy growing, that was going to generate an abundance of revenue. If you go back and look at the numbers for revenue following on the recession of ’82, ’83, the growth in revenue was extraordinary and it was economic growth but it was also in part because of the tax increase.

There is a parallel today with ’94. We’re going into an election this year in which the pundits are saying, the polls are revealing, the few anecdotal elections, are revealing that the Republicans are likely to gain substantially on the Democrats. Well, that’s what happened in ’94. And in ’95, the budget that President Clinton submitted to the Congress when it took office in 1995, January of 1995, was for the fiscal year ’96. It contained \$200 billion deficits as far as the eye could see. But the Republicans constrained spending dramatically and cut taxes and he went along. That’s when the economy really took off. If you look at the stock market, it was down in the two, three thousand range and it went above 10,000 very quickly. So these kinds of tax cuts, these kinds of spending restraints, do have a very substantial effect in promoting economic growth and reducing whatever deficit is out there. And if I were in Larry Summers’ position I would be telling the President nothing would so substantially increase economic activity and increase employment right now but for you to say in this time of where the economy is in very bad shape, you do not want to increase taxes, and therefore I am in favor of extending the Bush tax cuts indefinitely and also I would cut the corporate tax rate. Right now, because other countries have cut their corporate tax rates, we are quite substantially disadvantaged versus a lot of other developed countries. If we’re going to sell abroad, we need to cut the corporate tax rate. And this, of course, would reduce the propensity for American companies to locate economic activities abroad.

01-00:26:36

Sharma: But focus on adopting policies that will promote growth rather than looking at the deficit in and of itself as—

01-00:26:44

Miller: Right. Or raising taxes, which would be counterproductive, actually, in the long run.

01-00:26:49

Sharma: Can we just go back a little bit to the Reagan Administration? What to your mind were the Administration's primary economic goals?

01-00:27:09

Miller: Well, President Reagan articulated a framework of four principles right off the bat. Tax cuts, spending restraint, regulatory relief and stable monetary policy. And you just can't get much more basic than that. So he pursued all four of those goals relentlessly.

01-00:27:35

Sharma: To what extent was deficit reduction a part of the thinking of the early Reagan administration?

01-00:27:40

Miller: Let me tell you, it really bugged him. It really bugged him. There were just numerous times that he voiced concern about it. He got some tax cuts. He had to do a little give in on that and then '86 got some very substantial reforms. He got some spending restraint, though not as much as he had hoped, because basically one of his superior goals was restoring America's strength in its defense policy. As he encouraged our ambassador to the United Nations, Jeanne Kirkpatrick, to take off the kick me signs that Americans were hanging on their backs, pinned on their backs. And to get his increased defense spending, starting in about '85, '86, '87 budgets, he had to go along with more domestic spending. That was the deal.

Basically, he would say, "I want to increase defense spending, restrain non-defense spending and no tax increases," and the majorities in the Congress were feeling their oats and they were saying they want to cut defense spending, increase domestic spending and increase taxes. So you had those three points for both of them at loggerheads and what usually happened was the President would get his way on tax cuts and he would get his way on defense spending. Maybe not increasing it so much but maintaining it at a high level, which really broke the back of the Soviets. But he had to give on social spending. So if you went and looked at it that way and you looked at the deltas on non-defense spending, on domestic spending, they accounted for most of the deficit. But he really was bugged about that. And when Phil Gramm and Fritz Hollings and Warren Rudman came up with this idea—and it was really Phil Gramm's, I think, of so called Gramm-Rudman-Hollings, that went through a number of iterations, the President was quite enamored of the idea. This was developed just as I was going over there and I talked to Phil and others about it before it got there. And it is sort of a public choice 101 way of addressing the propensity for excessive spending. So, of course, what

happened is it went through various iterations. The sequester mechanism would include defense, exempt social security and things of this nature which the President didn't like. But in the end he finally agreed to sign on to it.

01-00:30:52

Sharma: Gramm-Rudman-Hollings is an important part of our broader project and I'm hoping we can stop now and talk a little bit more about it.

01-00:31:00

Miller: All right. Go ahead.

01-00:31:01

Sharma: First, if you can detail, to your recollection, the origins of that bill. Was it really Phil Gramm's initiative? He would have been a Congressman at that point.

01-00:31:32

Miller: He was a senator.

01-00:31:32

Sharma: A senator at that point. Right.

01-00:31:34

Miller: Yes. He had been elected to the United States Senate. Look, it's just economics 101. It's public choice 101. But it's pretty much economics 101. Congress has a propensity to expend beyond anything that makes sense, arguably. Deficit was the big bug-a-boo, so if you tie the spending to the deficit, that's a way of keeping spending under control and allowing the deficit to come down, as the economy continues to grow. So that was basically the proposition, is that since the members of Congress won't do it by themselves.

The budget act of 1974 was like that. You need a budget resolution where you agree on a total and then you'd agree on the separate parts, etcetera. The problem was that Congress wouldn't accord with it, wouldn't do the things recognized by the Act. And, of course, it was a concurrent resolution rather than a joint resolution. It didn't involve the President. One of the proposals that I had when I was at OMB was that make it a joint resolution. Make it a law, not just agreement between the two houses of Congress. I'll tell you a little vignette. Bill Gray was chairman of the budget committee in the House and I invited him over to the White House for lunch one day and we were talking about it. And the incessant problem was that Congress would never meet the April deadlines for the budget resolution. And for that reason they'd argue that they couldn't get the budget finished before the end of the fiscal year, even though the fiscal year had once been June 30th, not September 30th. And so I said, "Why don't we propose this? Why don't we have a law that says that if the Congress doesn't meet its budget resolution deadline, that each

member of Congress gets a pay cut of ten percent. Maybe twenty percent. Something like that.” And maybe you can do the same thing for the others or whatever. And Bill says, “No, Jim, no. That’s not the way to look at it. What we need to do is tell them if they get it finished by April 15th, they get a bonus.” I said, “I don’t think that’s going to fly, Bill.” But in any event, they wouldn’t finish it up. And that’s the problem with that original law.

So Gramm-Rudman-Hollings comes along and it says basically that if you can’t do it, there’s this robot that’s going to come in, sequester and cut across the board all of these accounts. So that’s what eventually passed and that’s what the President signed. But you’d have to ask Phil about all the details, the machinations of it. I would encourage you to talk to him because he’s a person who played an extraordinarily important role in budgeting in the 1980s and beyond. But it was kind of straight-forward stuff.

The genius was that he had enough credibility in the Senate to say, “Let’s try this and see if it works,” and got enough bipartisan support that they finally got it through.

01-00:35:20

Sharma:

That’s sort of leading me into my next question. Why do you think it took so long? Or at least why did it emerge when it did? Was this a manifestation of bipartisan consensus that Congress needed to tie its own hands more strongly with regards to the budget?

01-00:35:37

Miller:

Yes. The deficit had been rising. We were looking at \$200 billion dollar deficits, then, not trillion dollar deficits. The deficit had been rising, and it was a perpetual problem. But also, there was distrust on both sides. Distrust particularly on the part of the President. I can’t tell you how many times he told me personally, “I walked out under that tree out there, elm tree, or whatever it is, oak tree, with Tip O’Neill and we agreed that I’d get two dollars in spending cuts for every dollar in tax increases. And we got the tax increase and I never saw the spending cuts. And so there was just great distrust on both sides. So this seemed like a new different way of approaching it. It didn’t have partisan flavor to it because it had not been championed by Republicans or Democrats for years or something like that. It seemed like a way of doing it.

You’ve got the old fallacy of composition in the Congress. You’ve got an individual member of Congress who wants to get the biggest piece of the pie for itself and everybody’s looking for a bigger piece of the pie. It means that the whole pie has to grow. That’s what happens. It’s not just the angle, increasing the angle or the shape of the piece of the pie. If they want a larger piece of pie the way to sell it for everybody is to make the pie larger.

01-00:37:24

Sharma: I think you've written about it being akin to the tragedy of the commons.

01-00:37:27

Miller: Right, exactly. So there's excessive drawing on the budget by each individual—and if you look at what are now called earmarks—we used to do just call it pork barrel spending, they just increase so dramatically.

I wrote a book about campaigns, monopoly politics and the propensity of members of Congress to insulate themselves from competition in ways that, by analogy, if people in private sector companies did that, they would go to jail. Literally go to jail quickly. But I've forgotten my train of thought here. Got to do something about monopoly politics.

01-00:38:20

Sharma: About sort of the inducements to spending growth?

01-00:38:27

Miller: Yes, right. Oh, I know what I was going to say. Just as I found in researching some of the literature on campaign spending, there's actually evidence that you can spend so much that you decrease the spread between you and your competitor or you're increasing the deficit that you're running vis-à-vis your competitor. There are instances where pork spending just got so far out of hand that, for a member of Congress, it was a deficit, not an asset. Jack Brooks was one of the biggest porkers in Congress and he larded up his district with not only spending—Charlie Rangel today reminds me of Jack Brooks. He had this little university in his district. There was a Jack Brooks Center here and a Jack Brooks Center there. It was just too much. He lost in the '94 election. A very senior member of the United States Congress and he lost the election. Arguably, largely, because of that.

01-00:39:50

Sharma: That his constituency was frustrated that he was acting fiscally irresponsibly?

01-00:39:55

Miller: Just thought it was too much and it was just a rank embarrassment. And so much of it was to gild his own reputation.

01-00:40:06

Sharma: Was self-glorifying. Could you speak a little bit about the Reagan Administration's view towards the Gramm-Rudman-Hollings legislation, particularly with respect to the details of the sequester. Firstly, if there was any concern about what the Supreme Court would rule unconstitutional as the GAO serving as this sequestering agent and then secondly about this notion about what was considered a disproportionate defense sequester versus domestic discretionary—

01-00:40:41

Miller: Well, number one, the President didn't want defense to be sequestered, right. But it was in there. So there was concern over that and what the ratios were and what all these proportions were, etcetera, and there were all these problems about budget authority versus budget outlays. Secondly, there was the Constitutional issue, and that is whether there could be an arm of Congress- GAO- making a determination about a law, unilaterally about basically the results of a law. When you have a sequester, it's basically saying these appropriations are now less than they were, something, and changing the law. The Constitutional issue was really quite straightforward and prominent in the thinking that we did. The President ended up signing the Act but issuing a statement that he thought that this provision was unconstitutional under *Chadha*, the decision of the *Chadha* case. And I remember actually going up to the Supreme Court during the argument and being interviewed afterwards. I predicted the Supreme Court will find that part unconstitutional. But they had a savings clause in the law so that the whole thing didn't fall because the GAO provision failed.

01-00:42:32

Sharma: I'd like to just get a little bit more about your thoughts about the legacy of Gramm-Rudman-Hollings. I think a lot of academics, when comparing it to the 1990 Budget Enforcement Act, have said that Gramm-Rudman-Hollings was too strict and that's the reason it failed. I know you've written that it actually led to significant spending cuts the first year of enactment, but I'd like to get your thoughts about how you, in retrospect, think about comparing the two pieces of legislation and whether—

01-00:43:11

Miller: Well, you remember that the original target was like 150 billion after the first year and it did fall from there to 148 billion or something like that and they were supposed to go to 108 and that's where Congress revolted and said that was too strict, it was too much, etcetera, and they passed an amendment which the President was very unhappy about signing. But he felt he had little choice. One of my favorite episodes and memories about being in the Reagan Administration, was where he had this signing ceremony in the Rose Garden right outside the Oval Office on the stairs. Well, as OMB director—I don't know whether it's the same today as it was then—but I got every speech that he made, plus all the speeches of all the Cabinet officials, etcetera. They all went through my hands. I typically would not spend much time with them, but something the President had to say I would read. He quoted General McAuliffe at the Battle of the Bulge and General McAuliffe said his response was nuts or something like that—so I changed a little language and I put in there, "Those in Congress who think that I will go along with a tax increase, they are nuts. Those who think I'll go along with a cut in defense spending, well, they're nuts, too." Or maybe it was the other way around. I put that in the speech and passed it back up and I had no idea he would take it. Good Lord, I'm standing there behind him looking over his shoulder at his notes. I

couldn't believe it. It was in there like I had drafted it. And he said those words. I think there was a twinkle in his eye. Later, Howard Baker said to me, of course, we had all those leaders, Congressional leaders, he said, "What'd you think about that?" I said, "I thought it was really good." "I thought those leaders were going to bolt," he said.

01-00:45:29

Sharma: Why would you have expected it not to have made the speech?

01-00:45:33

Miller: There's a certain level of decorum and reasonableness about language in any Presidential speech. It's not Presidential to call members of Congress nuts or something like that. I didn't think it would survive. But there was much greater debate about calling the Soviet Union the evil empire and his speechwriters put that in there and the State Department would take it out and so forth. Back and forth. He put it back in. It would go back through the speech process and he put it back in. The President gets to say what he wants to say.

01-00:46:14

Sharma: That's true.

01-00:46:15

Miller: And, of course, it turned out to have been the right thing to say. Well, in any event, some would say that Gramm-Rudman-Hollings was too strict but those are the people—to my mind, I don't want to carry this too far, but it's kind of like an alcoholic saying, "I need a drink." Sure, I'm not surprised if you say that you need a drink. For Congress to say, "Well, I need to spend more money." Well, that's not surprising.

01-00:46:50

Sharma: And I'd like to get your thoughts about then the Budget Enforcement Act of 1990 because I think it's maybe more than a critique of the strictness of Gramm-Rudman-Hollings but a recognition that certain pieces of the Budget Enforcement Act, such as the PAYGO rules, were actually very effective in paving the way for the budget deficit reductions.

01-00:47:15

Miller: Let me tell you. To my mind, the Republicans got outsmarted with PAYGO, the whole Budget Enforcement Act. They got outsmarted. And what happened there? Well, they didn't like Gramm-Rudman-Hollings, like these kind of strictures or the targets and the possibility of some kind of enforcement mechanism, some kind of sequester or something like that. So they got this proposal before them. PAYGO. Okay, you got to pay for it someday. Well, the Republicans thought, "Well, boy, we'll get to keep spending under control," because if we got to increase something with spending here, we'll have to decrease it somewhere else, whereas we'd had extraordinary misuse of

emergency supplemental where it just became a vehicle for any spending anybody wanted or hoped that they could get it through. It was like running up and down the aisles of Congress with a wheelbarrow. Throw it in. You want some? Throw it in here, put it in here, put it in, put it in. And you get an emergency supplemental. I'd draft, send up an emergency supplemental for ten billion dollars or something. You'd take it out of this program, that program, whatever it is. Of course, what you would end up getting is instead of ten you get forty billion dollars or thirty billion dollars or some multiple and it would not be paid for. It wouldn't be paid for at all. So Republicans were resistant to that. So they said, "Oh, well, we have PAYGO rules so you have to pay for it by reducing spending somewhere else." The Democrats said "We'll pay for it by increasing taxes." Not only that, because of what was a very conservative scoring process on the part of CBO and, for years, on the part of OMB, it meant that whenever you proposed a tax reduction you had to pay for it in some way. So if you had a tax reduction, you had to decrease spending, and that was politically unpopular. Now, of course, if you had dynamic scoring, and I would say this is not just dynamic scoring, this is like algebra instead of arithmetic. Static scoring is arithmetic. Dynamic scoring is more like algebra and the world is more like algebra, not like arithmetic. Then you could pay for something by reducing taxes. So PAYGO resulted in a blockade of any further consideration of tax cuts.

01-00:50:15

Sharma: I see, I see. That's interesting.

01-00:50:16

Miller: And so they were just outflanked on this. Outsmarted.

01-00:50:20

Sharma: The issue of forecasting and static versus dynamic scoring is also a really important part of this whole question. During your tenure at OMB, were there efforts made to introduce dynamic scoring and can you speak a little bit about the—

01-00:50:34

Miller: Yes. Let me say, I think this is one of my failings. I had friends in academia. If you looked at a lot of the tables that OMB produced of the budget, they were not reflective of dynamic scoring. It's just one of those things that I just didn't have time to get into. I wish I had.

01-00:20:58

Sharma: Would it have been—

01-00:20:59

Miller: Would have been extremely controversial. I would have been blasted six ways to Sunday. It would have been a political decision that would involve more than me about whether the President should be hanging out there, having the

talking heads characterizing him as somehow trying to play tricks. And let me say, with some justification. I count myself as an academic, so it was a shock to me when I first go up to testify before budget committees on becoming budget director and they start talking about these tricks and how I'm trying to mislead and all of this and quoting David Stockman in Greider's *Atlantic Monthly* article. Quoting over and over David's book because it was published soon after I got there. Etcetera, etcetera. Now, I'm used to being an academic, giving a seminar and having academics jump on me, criticizing my data sources, criticizing the lack of sophistication of the model or maybe even some mathematical mistake I made in rearranging the equation or test of a hypothesis or something like that. But I was not accustomed to somebody questioning my integrity. In academics, you're lying here, you're falsifying data. That's the equivalent, you see. So I was really taken aback by that.

So given that there was an atmosphere out there that allegedly some of the Presidents, or at least somebody testified that it was true, had misled the public or misled the President or whatever, for the budget director to say, "Oh, wow, rather than increasing revenue if you increase taxes, you would actually reduce revenue and vice-versa." There would be extraordinary controversy about this.

And then the question is whether the President wanted to spend his political capital on that or something else.

01-00:53:04

Sharma:

Right. You've led into questions that I have about how you found OMB as an institution when you took over and whether there was any sense of frustration among the staff with Stockman's legacy, particularly the way in which he sort of cast aspersions about OMB's use of figures and alleged manipulation of data and certainly you've just detailed how that played a role publicly.

01-00:53:40

Miller:

Well, I've said many times, despite the fact that I think very highly of the staff at the FTC, always will, that the OMB was the cream of the crop. They were the very best. Partly that reflected the fact that that's where the action is. You've got more access to information and control. I used to tell some of my budget examiners when I'd meet with them, etcetera, I said, "Look, you go to a party and you find that there are two or three assistant secretaries hovering over some young person, it's probably their budget examiner. You have extraordinary power. Your challenge is to do the right thing because you're going to be contesting with a lot of these people. They're going to say bad things about you, etcetera. You can get them. You know how to get them. You know how to stick it to them. You don't stick it to them. You do the right thing. You make the right decisions. You make decisions based on analysis, the President's program and so forth and so on." So I found it to be really a terrific staff. Highly motivated.

Just as an aside, I was giving a speech one day. I can't remember the details, but I do remember giving the speech. I was bragging on the staff. It was some group that was interested in deficit reduction or spending control, whatever. I said, "These are tough people. They are wonderful. They're highly motivated. Cut spending and so forth." I said, "These are the kind of people that can run over dogs and not look back." And later I found out that somebody put out a calendar, one of those flip calendars, 365 days. It was 365 stupidest things people have ever said or something like that. I have a day in there with that quote in it.

01-00:55:54

Sharma: And it's the title of your book, too, or the subtitle of your book, right? *The No Man*.

01-00:56:07

Miller: The Abominable No Man.

01-00:56:07

Sharma: The Abominable No Man.

01-00:56:08

Miller: That was a line that came up. Jim Lynn, President Ford's budget director, came up with that line. But, anyway, it was the cream of the crop and they're terrific people. I think they all respected David Stockman for his brilliance and the fact that he basically restored, perceived to restore the preeminence of OMB as an institution. I think they thought what he did was quite unprofessional, however.

01-00:56:33

Sharma: Right. It's something we'll want to bring up in our other interviews, is the ways in which OMB has and has not played a central role in different administrations. It certainly seemed during the Carter Administration that OMB was, if not sidetracked, then its stature was degraded in a lot of respects.

01-00:56:58

Miller: Well, you have to keep in mind that Bert Lance, who was the first director, became the whipping boy for all the anti-Carter people on the left. Not on the right, on the left. And just really did him a very bad number. I think he's a good old boy from Georgia. He's a man of integrity and all that. And I think that hurt OMB as an institution. And then Jim McIntyre took over. He's a very, very bright man, you'll find. He did a really good job. But I think OMB suffered because Bert was the person that became the lightning rod for a lot of people. And former high school colleague of my wife's, Stu Eizenstat, became sort of the de facto policy guru.

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02-00:00:00

Sharma: So I wanted to ask about your impressions of OMB's place within Reagan Administration economic policymaking and then your specific role. How much went through OMB? How much access did you feel you had to the President and how was your advice listened to?

02-00:00:23

Miller: Let's see. First of all, the policy, the strategy, was very clear what we were to do. We knew what made sense from the standpoint of the President and what didn't make sense. We had, from time to time, a few little debates over whether we should be doing what the President wanted or whether we should try and force the President into doing things we thought that were more likely to be in his interest than he thought were in his interest or something like that. I came down on the former. You carry out the Presidential policy. You give the President the best shot, you make the argument, sometimes the President agrees. Sometimes the President disagrees.

So much of what we did in economic policymaking was fine tuning. There'd be a day to day change here. You want to make sure that this policy, whether it's a policy with respect to international trade or a policy with respect to regulations, a policy respect to tax policy, is supporting the President's overall program. My inputs to the President were primarily in meetings. I was a member of the National Security Council, a member of the Economic Policy Council and also the Domestic Policy Council. The President had lunch with his a cadre of senior staff every Monday that he was in town, unless he had some other obligation. So we talked very openly then. We very frequently made presentations to him in the Oval Office. Usually Beryl Sprinkel, Chairman of the Council of Economic Advisors, Jim Baker Treasury Secretary, Don Regan and then, of course, Howard Baker after Regan left.

I'd very rarely go down with papers to the Oval Office and walk in and say, "Mr. President, I think you've got to focus on this, that." No, I didn't do that. But I saw him when I needed to see him. I think OMB's role was very strong because, one, I had a reputation of really following the President's mandates. Some other evidence. We had very few appeals on the budget. The budget process is one where the agencies submit their proposed budgets in September, then there's the pass back after OMB puts it all together. The budget director sits and makes decisions about what has to be done on the various programs, etcetera, and then the pass back. Then the budget is sort of collected and put together and you brief the President. Of course, you're trying to carry out the President's wishes and putting the President's budget and drafting the President's budget and you spend two afternoon's with him going over the details and the President says, "Yes, no," whatever. It would be about macro issues. This is the level of this or that and the other. You've got

micro issues. I remember sitting across from him saying, “Mr. President, I think that the Interstate Commerce Commission played a role. Arguably, it was a role that was not warranted- restrained competition, etcetera- but there’s no reason for it anymore.” He said, “That’s a good idea, Jim.” I sat there and I proposed that the budget include demonopolizing and privatizing the Postal Service. He said, “That’s a good idea, Jim,” and only later did I find out in his own hand, one of his radio programs, was about that. He was one of these guys for whom it didn’t matter who got the credit. So I had that kind of access but I was not somebody who just ran over all the time. And yet I do recall, with humor, one such incident. The President was coming in, landing in the helicopter. There was something I had to get clear with him or something. And I ran over. I’ve had many faults and one of the faults I had when I was budget director is I chewed chewing gum. And I came down through the diplomatic tunnel, turned into the diplomatic entrance, and I ran right into Nancy Reagan. And I had this wad of chewing gum in my mouth. And I went, “God, what am I going to do?” I ended up choking down the chewing gum.

02-00:05:15

Sharma: You could have passed it along as jelly beans.

02-00:05:20

Miller: Yes, I was just chewing the jelly beans. But I felt the weight of the job. I knew what he wanted and I worked hard to make it happen. I used to tell people that my job is to do what Ronald Reagan would do if he had the time to be budget director. And I think he was quite pleased with what I did. But I didn’t go walking in the Oval Office trying to change policy here or there. I was a team player.

02-00:05:59

Sharma: Why do you think there was so little agency pushback in general? Was that because agency heads tended to share your basic philosophy?

02-00:06:10

Miller: I don’t know. It was a combination of things. Some of the early fights were over. David tried to cut the defense budget, allow defense to spend far less than the President wanted. Part of it was the first budget I handed back, as I said in my book, I walked in that cabinet meeting with everybody being my friend and then when the President said, “This is your budget here. Jim, tell them.” And I told them and when they walked out, they were probably thinking I was their enemy because I cut nearly everybody’s budget from what the proposal had been. I think part of it was Don Regan was perceived to be a real tough hombre, too.

The very few appeals came mostly to a little budget review board that Don set up. But the bigger appeals came to the President. But there were very few of them. Don had this little Alaskan knife called an Ulu or something like that. He set that on the desk in front of him or on the table in front of him.

02-00:07:47

Sharma: Just as a reminder.

02-00:07:49

Miller: But that was kind of funny. The two budget appeals that really stand out: NASA appealed its budget. We had postponed the implementation of the space station by a year. That was going to buy us a lot of reduction in outlays for the coming year. Of course, NASA protested that and they appealed to the President. I went over. The time of the appeal was something like three o'clock. Apparently NASA people came over at two o'clock or something and they weren't cleared to get in. So the NASA people thought we had mistreated them, but eventually they got in and settled. Anyway, when I got there- the appeal was in the Cabinet room- right in front of the President's place were all these models of the space station and launch vehicles and all that. I said, "Oh, no, we've lost." The President ended up siding with them. But he got me aside. He said, "Jim, I gave a State of the Union message and I said we were going to put the space station up by such and such time, etcetera, and we have to do that." So we had to restore that portion of the budget.

The other one was an appeal from Charlie Wick. Charlie Wick was then head of the umbrella group for the Voice of America and so forth. He came to the Roosevelt Room. The President's sitting on one side, along with his chief of staff. Right across from the President sits the agency head who was appealing the budget and his associates, and me and my associates. Charlie exchanged pleasantries with the President and all of us and sat down. Charlie then, with great fanfare, reaches in his pocket and pulls out this piece of paper and unfolds it. "Mr. President, I am here today to protest this extraordinary outrage imposed by the Office of Management and Budget by cutting our budget request from fifteen percent to twelve percent," or something like that. "It is just an absolute outrage. I am here to protest in the sharpest possible terms." And then he looks around and he winks. Then he starts reading again. It was totally a show for the staff back home. And I bet he went back and he says, "This is what I said when I protested and appealed our budget."

There was another time when Cap came in and appealed his budget.

02-00:11:23

Sharma: Caspar Weinberger.

02-00:11:23

Miller: Cap Weinberger. It was because he wanted a special inflation factor for defense. Things procured by the Department of Defense, specialty hardwares, etc.—were going up in price at a more rapid rate than the CPI. The Congress had agreed in a two year deal to go along with CPI inflation factors. So he comes over to appeal that and I come in, about to sit down. All of a sudden Cap jumps up with a blue notebook and runs by me and sits down next to the

President, saying “Here, Mr. President. Here’s the problem. Let me just show you.” And I’m standing, “What the hell’s going on? Let me see the book.” I don’t know what he’s talking about. I don’t know the numbers he’s got there, etcetera. But anyway, the President ended up siding with me on that one.

02-00:12:13

Sharma: Oh, really?

02-00:12:14

Miller: Yes. But Cap was a great guy and we got along very, very well. He was a former budget director, by the way.

02-00:12:22

Sharma: That’s right. I didn’t want to dwell too much on it. But the matter of Defense Department budgeting being particularly difficult for you to get a grasp of as OMB director, because I know the Defense Department has its own special budgetary process and sort of brings OMB staff on for a short period of time each year. Can you just talk a little bit about it?

02-00:12:45

Miller: Well, the budget process includes going over to the Defense Department. Whereas, ordinary, when the agencies come to talk about the budget, they come to OMB. But they have all the classified stuff, etcetera, etcetera. But I had good people that I really relied on. Al Keel and then Wayne Army and others. So I really depended on them. I didn’t spend that much time. I went over to have lunch with Cap. I said, “Cap, I told people that if I’m not back by two o’clock, come get me.” He said, “Your legions will not make it across the 14th Street bridge.” National Security was tough to get your arms around.

What I did is I picked out specific things to look at and talk about. Obviously, aid to the Contras was a big issue. And the B1 bomber. Stealth generally. I went out to Nellis Air Force Base and then we flew down to Tonapah to see the F-117, the so-called black fighter. It was called a fighter but it’s actually a bomber, a small bomber. But I would just pick a few things to look at. When you’re budget director, you have to depend on your associates to get into these things. Like black programs, most of which are hidden in the defense budget.

There are ways you try to get your hands around it, those things that you can’t ever talk about. There’s one word that I’ve been told if I ever repeat I can go to jail. There’s some important stuff there. But let me just make a note. One thing that really impressed me about President Reagan is I never heard him say inside something inconsistent with what he was saying outside. There were things you talked about only inside, whether it was the Libyan hit against Gaddafi or something like that. You didn’t talk about them outside. But he was not one of these Machiavellian people who would say whatever the audience wanted to hear or whatever was strategic, in his best political interests. What you saw was what you got.

02-00:15:28

Sharma: Very consistent. Interesting. While we have time I want to get into a little bit of one of the parts of your book that I found most interesting, which is the Black Monday stock market crash in 1987 and then the way in which, if I'm reading it right, that led into the October/November 1987 budget summit.

02-00:15:51

Miller: Yes.

02-00:15:55

Sharma: And I was hoping you could speak a little bit about that, firstly about this relationship between the federal deficit and the money markets. In your book, you explicitly argue that the stock market crash was caused by a fear of large deficits and then when you showed that deficits could be controlled, the market rebounded fairly quickly and I don't know if that's—

02-00:16:23

Miller: No, no. What I think really happened is there was a perfect storm. A lot of things were going on. Question of the deficit, whether Congress would come together with the President and reduce the deficit. There was some concern over that. There was concern over tax increases because Danny Rostenkowski and others had started talking about tax increases. There was also talk about increasing tariffs on imports or somehow cutting back on trade or something of this nature. Managing the exchange rate. There was a number of initiatives to do that. So it was just sort of the perfect storm that brought about this sudden lack of credibility, a perception of a lack of integrity in markets. There was this gigantic drop in the Dow. But I remember going over and giving a speech to the National Press Club. I can't remember what it was about. Budget things, generally, whatever. No, it was about transportation. I think it was about something to do with transportation and coming out of the room and being interviewed by CNN. I said, "Well, I trust everything's going fine. People are coming to their senses, etcetera." In fact, the market had gone down to 150. Dropped 150 points or something but it was back up to about 126 or something like that. I think it's coming back. This was before you had the ticker on your Palm or your Blackberry or anything like that. Of course, it continued to go down. I don't know if you know the great story about Alan Greenspan who had agreed that day that to speak at the American Bankers Association Convention in Dallas, and as he was going to get on the airplane to go down there and he was questioning whether or not he should go and finally decided to go. When he landed and the staffer from the Dallas Fed met him at the airport, Greenspan said, "Where did the market close?" And the person said, "Down 506," whatever it was. And he said, "Good." He thought she meant 50.6, not 506 points.

02-00:18:29

Sharma: And so to your mind that drop was caused by a general lack of faith in the sort of fiscal path of the US and tax increases? Because there's another thesis that

this was actually more or less a result of computerized trading, or at least that that sort of exacerbated it.

02-00:18:47

Miller:

No, I don't think. Keep in mind, you didn't have that much computer trading then. You didn't have all those algorithms that told all these institutional investors what do to, etcetera. It was just not that sophisticated. This was before handheld telephones. I got one of the first bricks. I remember seeing the first brick ever while I was at OMB. But there just began to be a crisis in where things were going and I think it was more than just the budget deficit. It was taxes, potential for a tax increase. There was the potential for trade restrictions- shades of Smoot-Hawley, things of this nature. And it just broke. And then the market recovered some. Keep in mind, it recovered the rest of the week. Not every day but it was end of the week up some from where it was. And it just recovered very slowly. But it was kind of like the famous line that's associated with Rahm Emanuel. Never let a crisis go to waste. There were those who were trying to push the President in one direction or another. The evidence was pretty clear that these so-called budget summits never resulted in anything good. There's a lot of weeping and wailing and gnashing of teeth but you seldom get out of a budget summit anything that makes sense. In fact, if you look, I think I put in the book the evidence on budget summits. You tend to get a bigger deficit as a product of summit then you get when you don't have a summit.

But in any event, the President was finally pushed into agreeing with the leadership- keep in mind, the Democrats controlled both houses- that he would sit down and we'd have a summit. And all things would sort of be on the table but not on the table. Taxes really aren't on the table but—and so forth. We had a budget summit. I thought it was a terrible idea, just a terrible idea. He said, "I want you to go get the best deal you can get for me." So we went up there and negotiated for weeks, and then Jim Baker and Howard Baker insisted we show him what they thought was the best we could do, and after their pitch, I said, "Mr. President, you said two dollars for every dollar and you're about to get screwed again." And he sent us back to get something better. He said, "It's not good enough."

02-00:21:29

Sharma:

But you come out of that. There's a lot to go into that I'd like you to speak about if you're willing. First off, I'm still a little unsure if you consider the budget summit was called as a response to Black Monday or if this was more because Congress was unable to come to a resolution about the budget?

02-00:21:54

Miller:

Oh, I think had it not been for Black Monday there would never have been a budget summit. This was the crisis that compelled the President to give in and agree to it. Because he had been opposed to budget summits.

02-00:22:08

Sharma: But you were not consulted on that decision to have a budget summit?

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Miller: Oh, I said a number of times I opposed it. But he didn't call me up, as he did some other times. He called me in and say, "I've decided to do such and such," or we sit down and talk about it and he decides to do something. Like the immigration law. We argued it out in the Oval Office and he decided to go ahead and sign it. But the '86 budget summit? I heard from Howard Baker that the President had decided to go ahead.

02-00:22:40

Sharma: Did others in the Administration share your reservations about going ahead?

02-00:22:44

Miller: Not at the top level.

02-00:22:44

Sharma: So this was something you were sort of standing your ground?

02-00:22:47

Miller: The arguments for it were more political than ideological. "You just got to do it." "Gee, the situation's kind of gloomy and you got to do something." I can't remember the timing. I guess Iran-Contra happened subsequent to that. So it was not in the throes of Iran-Contra but they just felt the President had no other choice—I don't think they were that optimistic about what they could get in a joint budget summit but they felt that the President just had to go along with it.

02-00:23:27

Sharma: Something that was necessary. And without repeating too much of what you've already written about in your budget book, if you could just describe a little bit about your impressions of the summit itself. I know you've talked about your frustration with the fact that you're dealing with Congressmen who don't speak for the Congress as a whole, so you're not two equal parties coming together.

02-00:23:51

Miller: Exactly. That's exactly right. Exactly. In the budget summit, I made a big mistake. Probably the first time I've admitted this. Pete Domenici counseled that we ought to be talking about spending levels of last year, nominal spending levels, not current services. I said, "Oh, no, we need to start with current services." Well, that was a big mistake because the way most people think about things is that if you ask, "Did you spend more this year than last year?" You think in terms of last year versus this year. In nominal terms. Most people think that way. But when Congress talks about spending and cutting spending more, it's current services that's going up. Unless they spend more

than the current services number, they're not spending more. And if they spend more than last year but less than current services, it's cutting spending. Right?

02-00:24:49

Sharma: Right.

02-00:24:50

Miller: So that I think was a mistake in some of the negotiations. But basically what happens in budget negotiations, you got a room with a lot of people in it and everybody has to have their say. You go around the room and some people give speeches, some people talk about the weather—you spend all day doing this. Break for lunch and go around and around. Day after day after day. And then you say, “Well, let’s write some things down.” Nothing’s settled until everything is settled. So if you put something down that’s not settled—of course, I’m thinking if Howard and Jim and I say it’s a deal, we’re speaking for the President, it’s a deal. And those guys, leaders of the Congress, say it’s a deal, it means they agree to take it back to their people to see if they can get it passed. So the President’s at significant disadvantage in any of those sort of budget summits.

02-00:25:51

Sharma: Lot of posturing and—

02-00:25:53

Miller: Lot of posturing around. There’s leaking. I would be handed notes. “AP is calling. They said that you’ve been a hard ass about this or whatever.” Yes, that was true but they’re not supposed to be leaking. Everybody agrees, almost metaphorically, holds hands that we won’t say anything to the press or whatever. And very little did get out. One day I remember we were on the Senate side. We broke. I had to go to the bathroom. I got up to go to the bathroom and there’s a horde or reporters out there shouting questions. And I said, “Calculators are smoking in there. I’ll tell you, the calculators— I was trying to answer, “What can I do without looking like I’m an arrogant fool and not brush them off?” The next day, the front page of *The New York Times*, picture of me saying, “Calculators are smoking.” That was a day when there were few leaks.

02-00:26:56

Sharma: You mentioned Domenici. I was wondering if I could just get your thoughts briefly on whether you think by this point in time certain divisions had started to emerge within the Republican Party. Certainly the Democrats now had rebounded and controlled Congress, so you had a divided government. But do you think that—

02-00:27:15

Miller: Well, in '86 the Democrats took back the Senate. So starting in '87 it was a Democratic Senate.

02-00:27:25

Sharma: I don't know if I have a fully formulated question but I was wondering if you could speak a little bit about whether you saw divisions within the Republican Party emerging at that point in time between people like yourself who maintained a strong opposition to tax increases and maybe those like Domenici and Dole who were more concerned about the budget deficit.

02-00:27:44

Miller: Right, right. The Doles and the Domenicis. There was a crowd, sort of the old-time religion crowd. You got to pay for everything. If you spend it, you got to pay for it. Raise taxes. So that's like the price. Raise taxes. They would easily slide back into that. I think the bloom was off of economic growth through tax cutting and such as that. So there was a lot more opposition, of course, and a lot of the Republicans were getting kind of ticked off because they lost the Senate and somehow the President might be somewhat at fault. You look around and like to blame somebody else and sort of rethink the policies that you have been pursuing. But Pete Domenici was just a great admirer of the President's. I think he will tell you that today.

02-00:28:47

Sharma: I think it's worth considering stepping back from those particularities and thinking about Reagan's broader fiscal legacy and I'd like to get your thoughts on that. First of all, if you noticed any changes in the way in which Reagan thought about fiscal policy and then the deficit per se over the course of his tenure, whether—

02-00:29:13

Miller: Well, keep in mind, the first four years, except for the time I was at OMB, the six months or so, I was really doing regulatory stuff. I really wasn't in fiscal policy then and certainly at the FTC I was not following closely what he was doing in the fiscal policy area. When I got over there, I really didn't note much of a difference. He was a very consistent fellow. Very consistent. I don't think he changed his mind about things. He was the kind of guy if he wanted to get something done, and the Congress did it partway, he'd say, "I really appreciate your sending me this half a loaf. I'm going to sign this and thank you. Next year I'll be up there for the other half." He'd go along with compromises or whatever, the best he could get. But he didn't change his ideological stripes. He believed in the same principles.

A President can change. He did this business about the cake and the arms for hostages and all that. He was a guy that really was labored by this hostage situation. He'd get these reports about people being mistreated and so forth. So he said, "No, we don't trade." He gave this mea culpa national address that

said, apparently, yes, I guess there was trading arms for hostages and so forth. So he changed. But basic policies that he pursued were pretty unchangeable. He had the advantage of having thought a lot about those issues. He'd do a radio show every day, or pretty much every day, and he'd record a bunch of them at the time. Probably a week's worth at a time, four or five at a time or whatever. And he'd go on the lecture circuit. There was a Reagan book of positions on practically every issue. He had thought about it and worked it through and decided about it. A lot of people in the press thought he was pretty unsophisticated. Basic principles of right and wrong and this and that are not all that complicated. He tended to follow those.

02-00:31:54

Sharma:

I think one of the fascinating things about Reagan himself and the Reagan Presidency is there's this, on the one hand, image of him as a very simple minded person, but on the other his tremendous political success. So you mentioned earlier he wasn't a Machiavellian figure but he achieved results that any Machiavellian person would have wanted. He was fairly successful in getting his agenda enacted.

02-00:32:22

Miller:

And he didn't really care about what other people thought about it. It just didn't bother him. He liked to be underestimated. A lot of people lost money by underestimating him. I very seldom saw him angry. He'd get angry when somebody would attack Nancy in the press or something like that. And he was sensitive to people saying, "Well, he says he's doing such and such for such and such a reason, but we really know that the real reason he's doing it is something else," or something. But the criticism he got, back and forth, etcetera, just didn't seem to phase him very much.

02-00:33:15

Sharma:

I was wondering if we can take this general sense and apply it to budgetary politics and the deficit. If you think he was particularly adept at cultivating an image of himself and his Administration as fiscally responsible. Particularly in light of the fact that there were unprecedented deficits during the time. Or is it unfair to blame Reagan for the deficits, that this was more of a structural change in the U.S. government?

02-00:33:57

Miller:

Look. He faced the political reality. As I said before, if he were going to maintain a strong national defense, he had to go along with increases in domestic spending. That was the price he had to pay. He prevailed on not having a tax increase. And, in fact, the '86 reduction of marginal rates was extraordinarily important and basically laid the groundwork for the economy to grow, even with the Bush declines or bobble. We had an extraordinary period of economic growth. But I don't think that he had second questions over the deal that he made. He worried about the deficit. He was concerned about the deficit. He didn't want the deficit to be a legacy. But I think he made

the right deal. If you think about it, what he did by investing in defense was that he brought down the Soviet Union, the evil empire. Who would have thought it? Certainly not the talking heads all through the early '80s and mid-80s criticizing his spending on defense. It was a military buildup. From the reports we were getting inside the Soviet Union, from émigrés to the United States from the Soviet Union who were very high level officials, from people that are there now who have spoken openly, that's what broke their back, including and most especially SDI. His refusal to give up SDI. He was condemned six ways to Sunday and in Reykjavik, he had it all done, and then Gorbachev pulled the rug. Reagan told us this story several times. He had this great reduction agreement with Gorbachev, reduction in arms. And then Gorbachev says, "Well, you realize, Mr. President, you have to give up SDI as part of this." And Reagan says, "No." He folds up his briefcase, clicks it. "There will be no deal." But he stuck with it and that's what broke their back and that's why we have the liberation. Nothing's perfect but we had basically the liberation of hundreds of millions of people in the old Soviet Union and in South America, Central America, because he stuck with his guns.

02-00:37:10

Sharma:

And this was just something that he appreciated at the time? That this was the overriding focus of his administration, was the end of the Cold War through the military buildup?

02-00:37:24

Miller:

He basically restored America's greatness. And that has many dimensions. Economic growth, rising standard of living. Form a peaceful world, eliminate the threat of Communism. It all ties together, but basically he restored America. America as the shining city on the hill. He had people say those were grandiose notions or whatever, unrealistic notions. Everybody criticized but that was his goal.

02-00:37:58

Sharma:

I just have a few more fairly general questions before we finish. I was wondering how your own views on fiscal politics and budgetary matters have, if at all, changed in recent decades. Whether the experience during the Clinton Administration, which you touched on a little bit earlier in balancing the budget and producing a surplus, and then contrasted with George W. Bush's unprecedented deficits has caused you to reconsider certain things about supply side economics?

02-00:38:36

Miller:

No. The basic principles I haven't changed about but I'm much more pessimistic about the prospects that we can achieve for the federal government, a size and level that is optimal. The Balanced Budget Amendment went down. Term limits. You're not going to get Congress to go along with that. You'd have to have a Constitutional convention. A lot of people on the right are just scared to death if you had a Constitutional

convention they'd legalize abortion or whatever. So one reason I wrote the book on monopoly politics is to try to wake people up to the notion of a public choice problem- of the lack of competition for political representation. To my chagrin, it didn't get nearly as much play as I had hoped. So I'm less optimistic than I was.

You'd think that these people that had really bought on to the Contract with America in '94 would be different. But after four or five years, they were acting just like Democrats or just like the people who were there before. I don't want to say Democrat. Pork knows no party. There are Republic porkers, big time porkers, and Democratic big time porkers. But Congress is not going to reform itself.

02-00:40:41

Sharma:

Do you think the same is true with regard to Congress's potential ability to reform entitlement programs or the tax system? That there's the same sort of sclerosis, if you will?

02-00:40:55

Miller:

Look, first, there are academic studies that show if you're a member of the Ways and Means Committee, everything else equal, you generate about \$150,000 more in campaign funds than if you're not. If you get on the Ways and Means Committee, how do you stay on the Ways and Means Committee and keep that flow of money coming in? Well, you make the tax code very complicated. You get a little tax exception here, a little tax exception there. The people on the Ways Committee, if you ask them to vote in a secret ballot, would they vote to make the tax code really simple- hell no! They want to keep it complicated. It's just human nature. When the Founding Fathers set up the institutional arrangements, Congress was a very part-time job. They went to make simple standards, laws about how things were governed, declare war, not declare war. Simple kinds of things. It was not like what we had today. You had people who were very, very principled. More so, in some ways, than we have today. I think Phil Gramm is a very principled guy. He goes and he does the right thing for the right reason. You don't have a lot of Phil Gramm's. That's not just because Phil's a good friend of mine. I have other friends, too, that are very principled. Not to say that Congress is devoid of principled people. But on the whole you have people that are much more interested in being reelected and doing the things that get themselves reelected. And those things that get themselves reelected are problematic for the whole.

02-00:42:36

Sharma:

It's the classic public choice problem. It's the sort of short-term self-interestedness. In conclusion, I was wondering if you can help us think through—one of the things we've been intrigued by in doing background reading on this set of issues is the way in which the national debt has both a real substantive importance in American economic life but also stands as a

symbol for many things in American life. It really serves as a stand in for the types and level of government intervention in the economy. I wanted to get your opinions on first your thinking about the national debt as economically important. Why is the debt an important issue? Or is it?

02-00:43:33

Miller:

Let me back up. You remember I said there were several ways in which government can gain command over resources and one is to borrow and to spend. All right. Because of fiscal illusion, part of it is I won't have to pay for it. My children or grandchildren will pay for it. Part of it is you just tend to discount something in the future much higher than probably warranted. It seems like a cheaper way than to pay "taxes." It's a cheaper way to finance something than to pay real taxes or to cut spending. It's a cheaper way of dealing with size of government than cutting spending. And so you tend to get more of it than you would otherwise.

On the other hand, there's the debt clock in New York City. A lot of people care about the debt and this notion that you're leaving this debt for your children is a moral issue. Is a problem. I understand that in the conservative party's recent campaign in the United Kingdom, one of the most effective ads was a woman holding a baby. It says, "Father's eyes, mother's mouth, Brown's debt." So a child born into the world is born in debt. It is a symbol for a lot of people. And it tends to be derivatively a symbol of excessive government. When you have to go into debt to pay for something, you're probably spending too much. The parallel with the family budget is pretty powerful. If you keep borrowing money, you got to do something. You got to either raise revenue or cut spending. Most people have sort of a visceral reaction to going into debt. So it is important. But you read the same polls that I do and get the handle on it. And it changes somewhat over time.

But the numbers here are just mind boggling. When I did my budgets, I would invite in some people. Dick Wirthlin, for example, who was the President's principal pollster. But I'd invite in all the pollsters and we'd sit down and have a session. I didn't ask them what should we do, what the President should be spending on or whatever. I said, "Here's what we're going to do. Here's what the President is going to propose. How is the best way to characterize it?" Or, "Here are the President's principles. How is the best way to present it?" And one of the comments I remember was, "Jim, if you're going to cut a program a million dollars, cut it a hundred million. People don't know the difference. The amount of flack you're going to get for it is going to be the same either way. Might as well cut it a hundred million dollars." I remember visiting with Marvin Leath, who was a Congressman from Texas and he said, "Jim, don't cut the kitty cat's tail off an inch at a time. Just whack it straight off," which I thought was pretty good, "because you're going to get screams every time you whack it. Might as well whack it all off."

People don't relate well to numbers. I used examples. I got somebody figured out. What's a billion dollars? A trillion dollars, I guess it was. If you had a plane flying the speed of sound, reeling out dollar bills tied end to end- can you imagine the thought experiment? How long would it take flying the speed of sound to reel out a trillion dollars? I don't remember the answer, but it was just astronomic. Or, if you stacked dollar bills up, would it reach to the moon and back? I was trying to get people to get some notion of how large these numbers really are.

02-00:48:06

Sharma: Right. Do you think that the issue has become more polarized over time? That dealing with the debt has become a partisan issue?

02-00:48:18

Miller: Oh, yes. Yes.

02-00:48:20

Sharma: In what respect?

02-00:48:21

Miller: Well, there are not very many Democrats, save a few blue dogs, that would say anything but the answer is to raise taxes. And there are not many Republicans, save for a few moderates, RINOs they're called, who would say the answer is anything other than cutting spending. So it really is quite polarized. More so than in the past and when I was there.

02-00:48:49

Sharma: And do you attribute that to changing ideologies or just the gridlock in Congress?

02-00:48:55

Miller: It really is hard to say. Back to when our Founders set up the institutional arrangements, the stakes were not that high in terms of ordinary government operations. Stakes were very high when the British invaded in 1812 and things of this nature. Our lives, our fortunes, our sacred honor. They were pretty high stakes. But now the government's grown so large. It's into everything. I think that has tended to polarize Congress. If you've got a lot to fight over, you tend to have more polarized views than if there's not a whole lot to fight over.

02-00:49:34

Sharma: That makes sense. Now, the last couple of questions. What in your mind is missing from current debates over the national debt and the budget deficit? If anything.

02-00:49:58

Miller: It's not so much how we got in it but how do we get out of it. That's what is missing. What do we do about it? What kind of changes in our institutional

arrangements would get us out of continual deficit? Hardly anyone talks about the debt, they talk about the deficit. Although in many people's minds there's confusion over the two. For the politicians, the larger concern is the deficit. The size of the debt's okay. It's just federal paper, Treasury paper, etcetera, except for the notion that the Chinese have a lot of it, so someday they're going to cut us off, which I think is loony.

02-00:50:45

Sharma: Well, and interest payments do constitute—

02-00:50:47

Miller: And just imagine if we had interest rates on the scale that President Carter had. Now, I know the difference between long and short paper, etcetera, but we've had extraordinary low interest rates. Because interest rates have been so low, people tend to focus really on the deficit, not the debt. But how do we deal with it? How do we assure that we don't have continual large deficits?

Now, if you think of it in analytical terms, sometimes you'd run a deficit. Sometimes you'd run a surplus. Just like a company. You're making rational decisions. Sometimes borrow money, sometimes have surpluses and refund it to the shareholders or hold some in retained earnings, etcetera. But how do you change the institutional arrangements? But more importantly, how do you get that done? I can come up with a lot of institutional arrangements that would reduce the size of the government, that would restrain deficit spending. Every once in awhile somebody will come up and say, "Well, why don't we just tell Congressmen their pay goes to zero if they run a deficit," or something of that sort. Well, that'd be a big incentive right there. So that'd work. There are a lot of different ways. But to get them to do it, it's like asking a monopolist who writes the law to bring on competition. They're not likely to do that. So that's what is missing. That's what is missing. And I won't go into it but there was recently a very fine organization that held a big summit, among budget people to talk about some kind of budget deal or something similar. I refused to go just out of principle. This is going nowhere and if it comes up with anything it's going to be a package of tax increases and spending cuts, of which you'll get the tax increases and not the spending cuts.

02-00:53:08

Sharma: And so your opposition is that it doesn't deal with institutional arrangements that are at the heart of the problem.

02-00:53:13

Miller: Right. It will not deal with the kind of institutional arrangements that are necessary to get change. Of course, with respect to tax increases, they all go back to this rather linear thinking about it- a tax increase is like arithmetic. You increase the tax rate, you get more money. In some cases, yes. You find things that are very inelastic, you increase the tax rate on it, you get more

money. Some things that have very elastic demand, you increase the tax rate, you get less. And so you need to be thoughtful and analytical about these things. But you get a group of people who have reasonably good analytical skills in a room, they tend to be binary. “Yes, we got to increase taxes to get more money.”

I think you could take the existing tax code, raise the same amount of money as you do presently but increase economic efficiency and increase economic growth substantially. Maybe one or two percent a year. They’re not going to do that. The system works for their benefit. And I don’t mean to be critical of members of Congress. I ran for the Senate twice. I’ve often thought: after I had been to the Senate for five years, what would I do? Would I be just like the others? Would I find that the swamp felt more like a hot tub?

02-00:54:45

Sharma: That’s a great metaphor.

02-00:54:45

Miller: I hope that I wouldn’t.

02-00:54:48

Sharma: Well, in wrapping up, one of the things that I think we want to use these interviews for, ideally, is to help future researchers but also help future policymakers as they go about the tough work of hopefully trying to reform the system. If there were certain things that you’d want to say to, let’s say, a future director of OMB or people who are concerned with a set of issues, what would that be? Whether it’s from your own academic training and background or whether it’s from your own experiences in the day to day.

02-00:55:22

Miller: Well, several things that may not touch on the kinds of issues you’re addressing. But one would be to be true to your own self. You typically go into a job like that not expecting to acquire very much general capital. You acquire capital in specific kinds of issues and knowledge of the budget or whatever. But you’re going to depend on the capital you already have, your knowledge. You’ve got to remain true to your basic instincts. Don’t work too long. I worked fifteen hour days. I suspect if I worked twelve hour days I would have probably done a better job, because my marginal product likely was negative. Recruit the very best people you can get and give them authority. People whose judgment you respect and give them the authority to do the work. I remember one of the associate directors of OMB went to Dave Stockman’s executive assistant, and said, “I need to talk to Dave.” The assistant says, “Well, how much money is involved?” “\$200 million” was the reply. The assistant says, “You’re paid to make \$200 million decisions.” Get to know Congress. Spend a little time with some individuals in Congress. It will be a good way of your learning what the temperature is up there, etcetera, and have access to them. Be a team player and be known as a team player. Be

an honest broker when you have two agencies come in and they are in disagreement, because you're expected to resolve some policy issues as well as just simple budget issues. We used to say in the Reagan Administration, "People are policy," and a great deal of focus was put on choosing the right people for the agencies' heads, etcetera. But also, budget is policy. Hardly any policy decisions are made that don't have budget implications. Stay on top of the speeches and the things. And realize that you work for the President, not the other way around. Don't go out and try to get for yourself too much publicity because you become a lightning rod. You become a diversion for accomplishing what the President wants to accomplish. And think analytically. Just sit back and spend some time every day where you just think. I remember when I first went to OMB, I had my personal calendar published every day. Everybody in OMB had access to it. I would put thirty minutes down as personal time- to think. Someone told me there was a rumor that I was looking for a job. I responded, "Oh, no. No. I'm just trying to think. Spend a little time thinking."

02-00:58:58

Sharma:

Okay. Well, I think that's been really, really helpful for us.

02-00:58:59

Miller:

Good.