Joseph Minarik

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
Martin Meeker
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Meeker: Today is the 8\textsuperscript{th} of February 2011. This is Martin Meeker interviewing Dr. Joseph Minarik. Did I pronounce it correctly?

Minarik: Minarik, actually—

Meeker: Minarik. Joseph Minarik for the history of debt and deficit project. I know that you did your graduate work in economics but I’m interested in how it was that you became interested in doing public policy work through your work as an economist.

Minarik: I was really always interested in aspects of public policy. I started my undergraduate years thinking that I was going to enter the foreign service. I was an undergraduate at Georgetown and intended to get my degree in their foreign service school but got sidetracked from taking the mandatory economics class in my second year. That just grabbed me.

Meeker: Do you recall what it was about that class that was particularly intriguing?

Minarik: Probably just the way my mind works, which I guess if you’re an economist means you must be pretty sick and the notion that it was a discipline that would allow me to try to pitch in my bit and make things better, I guess to a greater degree, given my aptitudes than I would have the foreign service.

Meeker: Okay. So that was your initial interest in public policy, was the foreign service. Well, then how was it that you ended up after finishing grad school in 1981? I guess you finished grad school in about ’74?

Minarik: ’74, that’s correct.

Meeker: Okay. What did you do after you graduated?

Minarik: Well, actually, my third year of graduate school I was awarded a dissertation fellowship from the Brookings Institution here in Washington. So in the first two years I completed the exams and all my courses, came down here and in my third year completed my dissertation. Brookings offered me a job and I never went back. I was only actually on the campus at Yale for two years.
Meeker: What was the topic of your dissertation?

Minarik: The title was *A Microanalysis of the Size Distribution of Income*. It was a heavily data processing project. So happened that by a series of coincidences I had learned to write FORTRAN and I was able to do all my own computer programming and just buzz through it all. Got the numbers done. Had a very helpful lead dissertation advisor, Professor Guy Orcutt at Yale and two good second and third readers, Richard Ruggles and David Stern, and we got that done in a year and that was that.

Meeker: Who were your major influences at Brookings? Fellows there?

Minarik: I worked most directly with Joe Pechman, who was interested in taxation. He had a colleague by the name of Benjamin Okner, who, after I had been at Brookings two years, my dissertation year and then my first year on the staff, Ben left and he needed another collaborator/assistant on that project, so I wound up working with him. But there were a number of other people there who were wonderful to work with. Arthur Okun, Alice Rivlin, Charlie Schultze, Henry Aaron, George Perry and a number of others over the years with whom I spent a lot of time.

Meeker: So your work with Senator Bill Bradley on tax reform. Was this your first direct engagement with congress or legislative process?

Minarik: Certainly the first meaningful one. I had done the occasional congressional testimony. I had been at Brookings for seven years as a member of the staff in addition to the one year when I was a dissertation fellow and that was 1981 and the project, the funding for the project that I was working on, which came through the National Science Foundation, ended with a big cut in the NSF budget. So I wound up looking for something—

Meeker: Was that part of the Reagan rescissions of that budget?

Minarik: Exactly. So I wound up looking for something else to do and Alice Rivlin at that point was the director of the Congressional Budget Office and she had already asked me once to go to CBO and so I decided to look at that as an opportunity. I wound up working there. Was introduced by my direct supervisor. I was the deputy associate director for tax analysis.

Meeker: At the CBO?
Yeah, at CBO. There were two parts to the tax shop. There was one that does the policy analysis and the other that did the revenue forecast. I was in charge of the policy analysis part of it and my immediate supervisor got a call from the woman who was Bill Bradley’s Senate Finance Committee staff member saying that Senator Bradley was not pleased with the way the 1981 tax cuts had gone through and something needed to be done. Turns out that he had been thinking about problems with the income tax dating back to when he was a basketball player. The anecdote was that when he discovered that he was a depreciable asset he decided there was something needed to be changed in the tax law.

So in the course of one of the projects that I did at the Brookings Institution, there was a volume. Brookings at that time would do an annual conference on tax policy and then would produce a book which Joe Pechman would edit. We got into a routine where he would edit the book and I would do an appendix that would use the Brookings computer tax model to look at what the numerical implications of whatever work was being done, whatever recommendations were being put forward, would be. And in the course of one of those volumes I started playing around with some of my own ideas for changing the tax code and that gets a little complex.

Well, actually, I do want to get into that. But before we get into that, I’m curious. Were you at the CBO during the time that the initial Reagan tax cuts were being proposed and passed?

I arrived there just a little after the initial tax legislation was passed.

Okay. So you weren’t involved in any of the research or scoring around it?

No. No, I was not. The ideas that I had involved changing, first of all, the standard eliminate the loopholes, reduce the rates approach.

So eliminate tax expenditures?

Yeah, exactly. But beyond that, my idea was to take what were tax deductions and turn them into credits, which had the effect of providing the same amount of relief to people no matter what tax bracket they happened to be in. So in other words, relative to the current system, there could be made a tax deduction that you decided had merit and you didn’t want to eliminate it and that would not have the effect of defining what income is would be more generous to people with lower incomes, less generous to people with upper income. You would compensate for that by making tax rates relatively higher
at the bottom and relatively lower at the top. So you’d have a tax rate schedule that was flatter. You didn’t need as many brackets. And I worked out what would need to be put together to numerically get that to work. I actually never met the guy but a Republican member of the house, who also was not happy with the 1981 tax cuts, communicated with my immediate supervisor. He suggested they talk to me. We went back and forth on that thing for a while. Actually, let me correct myself. The initial contact on that actually happened when I was at Brookings, before I left. But what he was trying to do was to head off the 1981 tax legislation and that didn’t work, so he lost interest at that point, so then I moved on to CBO and there was this contact from Senator Bradley, who was looking for ideas, and the suggestion was that he talk to me. I wound up having some conversations with his Senate Finance Committee assistant and she decided that this was worth pursuing. So we wound up with a meeting that we held with some people from CBO and some people from the joint tax committee. That was in early September of 1981.

Meeker: So that must have been immediately after you began, I’m sure.

Minarik: Yeah. I started there in the beginning of July so it all happened very quickly.

Meeker: So this notion, actually, about flattening the tax rates, right. This is what ends up in the 1986 law, correct?

Minarik: Yeah, yeah.

Meeker: I’m wondering, explaining to someone who is not an economist, can you draw it out a little bit for me because I’ve asked other people about this. And from someone obviously on the outside who’s not an expert in tax policy, the notion that you’re lowering the highest marginal rates and increasing the lowest marginal rates does not particularly seem like a progressive move. Yet it became a cause of more progressive members of congress, that they advocated this because they thought that it would make the tax burden more progressive.

Minarik: And it did.

Meeker: Yes, okay.

Minarik: That’s the trick. Number one, the 1986 Tax Reform Act and the original Bradley bill, which was introduced in 1982, included substantial increases in the personal exemption and standard deduction. So more of the income of comparatively low income people was not taxed at all. So once you start with
that, you can have a higher tax rate and still come out ahead. But that higher tax rate in the lower bracket is also paid by people in the higher brackets. So the people in the higher brackets are starting to shell out more money for every additional dollar of income. And if you want to stay where you were in terms of progressivity, you don’t need as high a rate at the top because you’ve already collected the money at the bottom. And in addition, all of those itemized deductions which in the prior system, with a 50 percent tax bracket, if you gave a dollar to charity it cost you fifty cents. In the original Bradley design, the credit would have saved you only twenty cents, so the dollar you gave to charity or paid in mortgage interest or whatever would cost you eighty cents. So because those itemized deductions were less valuable, you were paying more in tax, which was then returned in the form of a lower rate. So the rate could be lower while still having a tax system that was equally progressive. Now, the original Bradley bill was designed actually to match the progressivity of the existing law. By the time you actually got to 1986, that constraint was loosened. So when we get to the story there, that’ll be another part of how it all works out.

Meeker: So in what capacity were you working for Bradley? Were you working in his office or—?

Minarik: I actually never worked for him.

Minarik: So you were a consultant?

Minarik: Well, not in the financial meaning. As we said, I started talking to him just about as soon as I arrived at CBO. CBO, as you know, is a non-partisan organization. By the time you’re getting into early 1984, I was spending a lot of my time working with Bill Bradley.

Meeker: Oh. So you were working at CBO this whole time—

Minarik: Through early 1984. At that point, I started looking around and coming to the conclusion that it was just not appropriate to continue in that capacity at CBO. It did not fit with the mission of the organization.

Meeker: Were you getting pressure from the director of the organization?

Minarik: I got no pressure from the director. In fact, one of the amusing side stories: In 1983, the congress was trying to put together a budget reconciliation bill to reduce the deficit, which at that point was a serious problem. The person who did tax analysis for the Senate Budget Committee, and at that time the senate
was under the control of the Republicans, left his position fairly abruptly. And all of a sudden, here they were trying to do a major piece of legislation and they didn’t have anybody who could do taxes. So they asked—the director of CBO at that time was Rudy Penner—to lend them me. So I was simultaneously working for the Republican chairman of the Senate Budget Committee, who was Pete Domenici. And just to close the loop, I was a member of the bipartisan policy center’s debt reduction taskforce which Senator Domenici co-chaired.

Meeker: Sure. With Alice Rivlin.

Minarik: Yeah, yeah. Exactly. So all these things come around. But Senator Domenici and I are now at the stage where we can call each other expletives and have a good time.

Meeker: [laughter] But not in 1983?

Minarik: Not in 1983. No. It was a little different then. So I was working in effect for Senator Domenici and at one point in the debate I was sitting next to Senator Domenici in the well of the senate. Bill Bradley was off on the side of the chamber on the other side of the aisle making rude but humorous gestures at me. So I did my job but I think the one thing that led me to consider that it was probably time to go—I saw somebody writing a note on a paper, some piece of paper that we were generating at CBO with a little note in the margins saying, “By the way, Joe’s working with Bradley. Are we sure we can trust him to be objective on this?” Okay, that’s not a good situation.

So I went to the Urban Institute and my position there involved writing a bunch of things and working with the team that was doing research on a range of economic issues. But it also gave me some time and a perch where I could work where Senator Bradley. And then beyond that, by the time the whole thing ended, it was a bipartisan enterprise anyway. Among the people with whom I worked was Senator Packwood, who was the chairman of the finance committee. And there were several Republicans in both houses who were interested in the issue and with whom I spent some time.

Meeker: And so before we get into the transformation of your original recommendations into the ultimate bill, I guess the other question I have about this period of time is what we’re coming to understand as maybe the most important transformation in domestic tax policy up to that point in time was the indexing of tax rates to inflation. Was that part of the ’81 Act and then it phased in later or was it part of the ’82—anyway, were you on the Hill at that point in time?
Minarik: I think there’s something in my mind that tells me that indexation was enacted in 1984. [In fact, indexation was enacted in the 1981 law, effective in 1985.]

Meeker: I think it was passed and then enacted later on. But as somebody who was in and around town at that point in time, becoming an expert on tax policy, did you have an understanding of how profound that change would be upon the ability of government to generate revenue?

Minarik: At the time, I argued against it on the ground that the easiest thing for congress to do is cut taxes. They love to do it and if you were going to have a bias in the tax system for that reason you probably want to have the bias leaning towards higher revenues rather than lower. The argument for indexing the income tax was a lot like the argument with indexing Social Security back in the early 1970s, which amounted to kind of “stop me before I kill again.”

Meeker: You mean in that it reduced the benefits that come from inflation?

Minarik: Well, the argument with Social Security was if you don’t have the benefits indexed for inflation, and periodically the congress will come along and raise benefits. And because we know that every time they raise benefits they overdo it, if you index the benefits, therefore you don’t have to worry because from there on the periodic increases of Social Security benefits won’t happen. Well, of course what happened was, number one, Social Security benefits were indexed in 1972, just before inflation really went through the roof and, number two, the indexation formulation was flawed.

Meeker: How so?

Minarik: Well, it was intentionally flawed in the sense that—and I’m not sure that I can reproduce this well. But the way in which the formula worked, the numbers came out one way or the other depending upon the relationship between increases in prices and increases in real wages. The presumption was that increases in real wages would be larger, increases in prices would be smaller. In the early 1970s, the situation was reversed and so revenues which were driven essentially by real wages grew more slowly. Benefits grew more rapidly. There was an understanding at the time the formula was enacted in 1972 that there was what they thought would be a mild upward bias in benefits. And the thought was that giving more money to support the elderly was a good thing, so if we’re going to have a bias we might as well do that. But it immediately got out of hand because of the changes in the way the economy was working.
My presumption with respect to the tax law was that I would rather have the congress periodically cut taxes than have tax reductions on an annual auto-pilot because I was more concerned that as a result of that revenues would wind up lagging the spending side of the budget and what we needed. Now, of course, by the time the tax law was indexed in the early 1980s, we already had inflation coming down. Of course, right now inflation is almost nil. So I wouldn’t make the argument that the indexation of the tax law had an effect on an enduring basis that was that profound. It did change the attitude to some extent towards the operation of the tax system. You can’t argue that in a world in which one assumes that employees will be compensated for inflation, expenses in the budget will be compensated for inflation, that compensating taxpayers for the effect of inflation on their real income is in any way wrong or unjustifiable. But the reality is that we have enough problem keeping revenues up. At this point, though, I think that going back, turning the clock back and getting rid of indexation of the tax law would be pretty much unthinkable. What we do have on the table is changing the price index that would be used. There is an alternative index that the Bureau of Labor Statistics produces which takes account of the opportunity that consumers have to substitute. In effect, the consumer price index says that if the price of apples goes up, your cost of living goes up. They have an alternative index which says if the price of apples goes up but the price of oranges doesn’t, you can shift from apples to oranges and that will mute the increase in your cost of living.

01-00:25:24
Meeker: So back to the ’86 tax reform. If memory serves correct, there was a fairly wide bipartisan support for that bill, correct?

01-00:25:35
Minarik: By the time it was done, yes.

01-00:25:36
Meeker: By the time it was done. What happened in the process of moving from a bill that you and Senator Bradley were working on together to a bill that was acceptable to a bipartisan group of legislators?

01-00:25:50
Minarik: Going into the 1984 election campaign, there arose a sense that the Democrats were going to use tax reform as a weapon, a political weapon against the Republicans. Republican tax cuts were across the board. They were heavily oriented towards upper income people. Now here were Democrats who could inoculate themselves to some extent from a class warfare argument because they could reduce the maximum tax rate but at the same time, by eliminating tax expenditures for upper income people, could actually collect more money. So the thought was that this could be a major political element in the Presidential election campaign. So in his State of the Union in 1984 President Reagan announced that his Treasury Department would undertake a study of tax reform and that the study group which he put under Donald Regan, who I
believe at that time was his Treasury Secretary, later became his chief of staff, that Donald Regan was to report back to him in December of 1984. At that point, there was an orchestrated burst of laughter from the Democratic side of the house chamber because what the President was doing was saying, “I’m going to do this, too, but I’m not going to tell you about it until after the election’s over.”

Meeker: Do this, too?

Minarik: Tax reform. President Reagan said, “I’m interested in tax reform but after the election.”

Meeker: Oh. So it was sort of like a surprise of what he would actually come up with?

Minarik: He was co-opting the issue without having to say specifically what he was going to do.

Meeker: Sure. Okay. So taking the issue off the table for the election.

Minarik: Yeah. Exactly. And what then transpired was that former Vice-President Mondale, who was the candidate, shifted his focus from tax reform to “he won’t tell you I just did” tax increase as a policy and so in fact there was no dialogue on tax reform in the campaign. So the original motivation for President Reagan to start talking about tax reform evaporated but he still had this study group going on and they did in fact report at the end of 1984 and that was the so-called Treasury One study. It was theoretically expert. Practically it left some things to be desired. So the President decided he didn’t really like that so much, so he sent them back to do “Treasury Two” which was released at some point. I guess it’s probably April, May 1985. Treasury Two was more practical. Instead of stealing the baby, it cut it in half and avoided some of the interests that would have been upset at Treasury One and also took some of the things in Treasury One that raised some practical issues and got rid of them. So it was thought to be a less theoretically pure, more practically viable alternative. And somewhere in that point people started thinking that this thing may very well have legs. The other thing that happened, to which I alluded earlier, is that President Reagan decided at some point—his initial ground rule was that tax reform has got to be revenue neutral. So even though people were concerned about the budget deficit, he didn’t want this to increase revenue. But he was willing to accept that it wouldn’t decrease revenue.

Meeker: Was he willing to accept that the source of the revenue would shift?
Minarik: You took the words right out of my mouth.

Meeker: Okay, sorry. [laughter]

Minarik: What he was willing to do—and to go back a square. If you have a fundamental change in the tax law, looking at the household sector, the individual sector only, if you’re going to collect the same amount of revenue in a different way, then there’s an identity. If one person’s tax goes down by a dollar, somebody else’s tax has to go up by a dollar. The political science folklore is that the people who win don’t know it and aren’t particularly motivated. The people who lose are well aware and scream. That’s particularly true if you’re going to take some people who have substantial incomes and have been very successful at avoiding taxes, and therefore would have to have big tax increases, and you take those amounts of money and you spread them over the mass of people who have been paying smaller amounts of taxes so that the change for each individual winner is small. So for those who are lucky enough to understand, their reaction is why bother. Whereas for the people at the upper end, there’s a lot of reason to be heavily motivated to try to stop the process. Now, from the point of view of an economist, to the extent that all of the devices that were available to reduce taxes for people with substantial incomes have been distorting the workings of a market economy. So, for example, in the 1980s one of the big concerns was you had a lot of people. A lot of individuals with substantial incomes investing in real estate tax shelters. So you’re throwing up commercial and office buildings that don’t have tenants but you don’t care because the tax benefits are so large you wind up making—the combination of depreciation and capital gains. You use the fat end of an accelerated depreciation curve and then you sell it to the other doctor in your practice and so then he gets to enjoy the depreciation and the money that you make from the sale, the profit is subject to capital gains tax and by the time you put it all together you’re actually making money from reduction in tax on your other income even though you may be losing money in the marketplace. So the conclusion there was we were wasting a lot of our scarce resources and making our economy a lot less efficient. While, with all this going on, we had a tax law that was demonstrably unfair and in some cases conspicuously, to the point where people were upset about it, and also wasn’t collecting the revenue we needed.

The President, facing this situation, came to the conclusion that he was willing to increase taxes on corporations as distinct from these upper income individuals I’ve been talking about. He was willing to increase taxes on corporations and take that revenue and move it over to the individual side and allow the individual tax, income tax, to collect less revenue by an equal amount. The primary benefit of that was so that people who otherwise would have faced tax increases might break even or even get small tax cuts. Now, the
extent to which that actually helped is—at the end of the day, it happened. It certainly would have been a lot harder if you didn’t have that money.

I frequently recount an anecdote to give a sense of the extent to which people were less than fully understanding of how this would work. At the end of the process of the bill passing through the senate, I wound up hanging out in the senate gallery and watching the debate for several days. At one point, one member of the senate took the floor and said that this tax reform bill would be a terrible thing because he was holding a poll that had been taken which indicated that 75 percent of the American people believed that they would face a tax increase under the bill as it then stood. I can’t recall whether this was the senate bill or the conference agreement actually. I was sitting there with my briefcase next to me and in my briefcase I had the joint tax committee’s analysis of the bill, which indicated that 75 percent of all individual taxpayers would get a tax cut. So you juxtapose a poll which says that 75 percent of people think they’re going to have a tax increase, and the reality which is that 75 percent of the people are going to have a tax cut, at least 50 percent of the American people were wrong. And people went through a great deal of effort to try to explain to people why that was not true.

But there were all sorts of things that people—ironically, the other senator from the same state, who was a member of the same party, a couple of minutes later took the floor and talked about one of his constituents who called in to the senator’s office and said, “I want to complain to Senator So and So because he is supporting this tax reform bill which is going to increase my taxes because I’m going to lose my deductions for sales taxes.” So the person who took the call, one of the things that was being done to try to help to inform the public was offices of people who supported the bill had a little quick and dirty tax calculator. So give me your circumstances and I’ll tell you what will happen to your taxes. So this person went on to explain his circumstances. The person on the other end of the call typed in the numbers and then reported to the individual that even though he’d lost his deduction for sales taxes, the rate reductions were so large that he would wind up paying less taxes, at which point the person on the call said, “Well, tell Senator So and So that I want to thank him for supporting this tax reform bill which will cut my taxes.”

And I’d written some papers at that time recounting those anecdotes and my conclusion was that working for tax reform was a little bit like treating a wounded animal. The animal may very well not understand that you’re helping and may come to the conclusion you’re the person causing the pain. In the end, it worked and there are all sorts of stories of people finally getting it and other people who never did.

But I guess one other thing that I should note just for purposes of the way this thing worked. The results in terms of new law tax versus old law tax, comparing by income level, were such that when you got to the very highest
tax, the very highest income bracket, which the joint tax committee analyzed, the results were very nearly equal. There was a very, very small net tax cut. I think at that point they were looking at taxpayers with incomes of $200,000 and above. And the first Senator that I just mentioned in the anecdote a moment ago in another part of his remarks said that what this is amounting to is a transfer from upper income taxpayers with tax shelters to upper income taxpayers without tax shelters. And he thought that was pointless. Of course, to someone who is concerned about either the fairness of the tax law or the economic efficiency that it does or does not promote, that’s exactly what you want to do. You do not want to have people’s tax liabilities differ simply because of the cleverness of their accountant in buying a well-selected vacant office building. So one of the questions that arose from some people who were observing the way this is working. There were folks who mistook—I would argue they mistook the relative roles of what we call the marginal tax rates, the tax rate in the bracket. So if you earn an extra dollar you pay X cents versus the effective tax rates, which is to say at the end of the day how much tax have you paid. So there were people who said that reducing the upper bracket tax rate was not fair because of the level of the marginal tax rate, even though these people on balance were paying virtually the same and people with lower incomes were getting significant tax cuts.

Meeker: With the balance being covered by corporate taxes?

Minarik: By corporate taxes. Yeah. I did the best analysis I could at the time. The maximum tax rate under the 1986 Tax Reform Act was twenty-eight cents and using that joint—

Meeker: Effective or marginal?

Minarik: Twenty-eight percent is the marginal tax rate. And it turns out that if you had taken that 28 percent marginal rate and increased it to 29 percent, the upper bracket in that joint tax committee analysis would have had a tax increase rather than a tax cut, and thereby would have violated President Reagan’s ground rules. He didn’t want any income bracket to have a tax increase. So it just perfectly met the constraints that were imposed at the time.

Meeker: So at the end of the day, when it passes in 1986, how did you feel about the final piece of the legislation?

Minarik: Overall, let’s start with the important thing. Overall, an enormous improvement on the prior policy. As a matter of fact, I do know there are people who say that in the subsequent years tax loopholes are reinstated, rates went up, nothing happened. Truth be told, if you try to figure out where we
would be today if the 1986 Tax Reform Act had not been enacted and you had started out with a rate that was at 50 percent and you had people monkeying with the tax code from there and trying to increase revenues as was done in 1993 to reduce the deficit it would have been much more difficult to meet our legitimate objectives and the tax code that we have today would be much worse. So yeah, you need eternal vigilance and we’ve fallen down on the job but I don’t think that anyone could make a legitimate case that we are either no better off or worse off because the 1986 Tax Reform Act was passed and, in fact, I think improved the situation markedly.

Meeker: Kind of like a defrosting, right. You have to keep going back and doing it otherwise or it’s going to accumulate.

Minarik: That’s a good analogy. There were some parts of the law that I did not like. I would have been happier if instead of the alternative minimum tax that was carried over from the old law into the 1986 act that we had done a better job with cleaning up the tax base and not had that alternative minimum tax. That’s certainly true on grounds of complexity. Why should people have to deal with two tax systems instead of one. The other problem was that it meant that you were leaving some preferences in the basic code that you should have gotten rid of. In fact, the alternative minimum tax has turned out to be a real problem. The other issue, which was ungainly but I think was unavoidable, was dealing with the transition from the old law treatment of depreciable assets like commercial real estate tax shelters and that transition was pretty harsh. There were people who had in good faith invested in aggressive tax avoidance schemes who wound up getting their wings clipped.

Meeker: Did that have any relevance to the savings and loan crisis that comes around?

Minarik: No, I don’t think so. I think you’re far enough down the road at that point. And certainly the structural issues with respect to the savings and loans, investments, incentives for people who were running savings and loans were—deposits are insured. So if you get behind the curve you reach for more yield, you take more risks and that was the heart of the problem. I haven’t seen anyone make a case that there was a tie in between the two.

Meeker: So did you stay at the Urban Institute until 1991 when you went to the House Budget Committee?

Minarik: No. I was the staff director at the Joint Economic Committee in 1989 and 1990. The chairmanship of the Joint Economic Committee bounces back and forth every two years between the house and the senate. Sometimes there have been members who have stayed on the committee for a long time. In other
situations, there have been changes. What happened in 1989 was that the former house chairman of the joint economic committee, Congressman Dave Obey who just retired from Wisconsin, moved up in the rankings at the appropriations committee and became a subcommittee chairman. As a subcommittee chairman in appropriations he could not be the chairman on the joint economic committee. So that went to the next senior member, who was Lee Hamilton. I mentioned Charlie Schultze a while ago. Lee Hamilton called Charlie Schultze and said, “Who should I have as a staff director?” and Charlie Schultze told him to call me. So I wound up working there for Lee Hamilton for two years. That had me in close proximity to the budget committee and then, ironically enough, my two persons ago, my once removed predecessor in my current position at the committee for economic development, Van Ooms retired from government service and came to work here at CED and so Leon hired me to go and become his chief economist and policy director.

01-00:48:20
Meeker: To be honest, I’m not up on the joint economic committee. What is the charge of the joint economic committee? What it is that they’re supposed to do?

01-00:48:34
Minarik: Well, the joint economic committee is a non-legislative committee. It does not work on any piece of legislation. So it is kind of the congress’s economic think tank. It was created as kind of an analogue in the congress to the Council of Economic Advisers in the White House, both created by the Employment Act of 1946. If you go back in the history of the joint economic committee, you’ll find some periods when you had particular members who were extremely well respected who played important roles on the committee. So, for example, Senator Paul Douglas, who was a trained and noted economist in his own right. Senator Hubert Humphrey was chair of the joint economic committee I think for several terms. Congressman Henry Reuss. I think Congressman Richard Bolling was also a chair of the joint economic committee for a couple of occasions. Lloyd Bentsen was chair of the joint economic committee once or twice before he became finance committee chair. Dave Obey is widely noted as a JEC chair and Lee Hamilton did it only once because he became the chair of the House Foreign Affairs Committee. So you’ve got some people there who have been fairly well regarded in that position.

But, again, what the joint economic committee does is it holds hearings, commissions studies. Among the hearings that it holds, it is the committee to which the commissioner of labor statistics comes on the first Friday of every month and presents the results of the employment situation report. So you would have seen the JEC on that occasion.

01-00:50:51
Meeker: Well, you would have been there, then, in 1990 when those well-known budget negotiations happened out at Andrews Air Force Base. Did you have
any involvement or sort of ability to observe and perhaps influence the discourse that was happening at those negotiations?

Minarik: Actually not. Observe from a distance, yes, but I was not at Andrews Air Force Base. Did not participate in those negotiations directly. And I don’t think that there was anything that I did at that time that really had any particular effect on that.

Meeker: What were the circumstances then, again, of you being brought onto the House Budget Committee by Leon Panetta?

Minarik: The then-chief economist and policy director retired and came to work for the Committee for Economic Development. So, actually, there were three positions that he held and then I held later. One was this position as the senior vice-president and director of policy at CED. The second was as the policy director and chief economist at the House Budget Committee and the third was as the associate director for economic policy at OMB.

Meeker: One of the things that a number of people we have interviewed have mentioned to us was the significance of the introduction of the two budget committees in 1974. By the time that you become involved in the House Budget Committee intimately in the late 1980s, I’m sure that by that point in time the budget committee had already well established itself institutionally. But maybe you can just give me an assessment of its status within the congress when you arrived there at that point in time.

Minarik: Well, I think you have to look at the budget act as a whole in assessing all of the institutions that it created. First of all, before that point you did not have a budget process in the congress as such. It was almost like a cook with no recipes. You do your thing, you throw stuff in the pot and at the end of the day what you got is what you got.

Minarik: You had an appropriations policy and you had a taxation policy?

Minarik: Yeah. To the extent that either of them were articulated well enough that you’d call them a policy. And as a result, it really was a kind of a—you think that the president at the beginning of the year puts together this detailed book and essentially what comes out of the process from the congress is just totally by chance. And because people at that time were becoming concerned about the state of the budget, the sense was that the congress needed to get up to snuff and actually start dealing with things systematically. Now, the irony of that, and people do not think that I am suggesting that this is the direction of
causality here. If my memory serves me—of course, we’re talking about the budget act of 1974. If my memory serves me, the ratio of the nation’s debt to its gross domestic product actually was at its lowest level post-World War II in 1974.

Meeker: I think that’s about correct.

Minarik: So you created a budget process to try to deal with what you perceived as a budget problem and everything went to hell from there. Again, I’m not in any way suggesting causality. As Alice said, Alice Rivlin said a number of times, and Rudy Penner said it and it’s become a cliché, the process is not the problem. The problem is the problem. But what the budget act did was really—I guess it did a number of things but the three that are important in this context. Number one, it set up a process. Number two, it created the Congressional Budget Office to give the congress native expertise on the budget to correspond to and match with and to be able to go toe-to-toe with the Office of Management and Budget, which of course serves the President. And in that sense, even though you have a substantial career staff there of wonderful people who are dedicated to fiscal rectitude and the office of the presidency and not necessarily any particular president, although they serve each president. But because they have to serve the president they’ve got, that is, at the end of the day, a partisan tool of the president. The term tool is not what I would choose if I had five minutes to consult a thesaurus, because it makes it sound a little bit too mechanical, a little bit mindless. But it is something that the president can use to implement his own policy, which of course is not necessarily shared by the other political party.

So the congress created a Congressional Budget Office to give itself the native expertise to deal with budget matters and then also to make this process work it needed budget committees. The position of the budget committees will always be awkward with respect to the rest of the congress, almost in the same sense as the Office of Management and Budget is in an awkward position with respect to all the agencies in the executive branch. I wouldn’t call OMB an agency. It’s an office within the executive office. Like OMB to the department of X, the budget committee to the committee on Y is often in the position of having to say no, and if you don’t like that, then the answer is hell no. And as a result, there’s always a lot of tension in those institutions. For much of the time you’ve had chairs in both the house and the senate who have been strong individuals who had not only a lot of—not only a lot of expertise but also just a lot of specific gravity in the institutions so they would not be pushed around. And also an understanding of how you work with your colleagues as chairs of other committees and work out a policy that achieves everybody’s objective to the extent that you can within a constraint. So Leon Panetta was incredibly highly regarded by all of his colleagues on both sides of the aisle and he would go to every chairman of every committee when he was putting together
a budget resolution and say, “We got to make the numbers work. Here’s what I’m working out. Can you tell me what you need, what’s important? I’ll tell you what my constraints are and we’ll come up with something that will work,” and I walked around with him. With the exception of one guy I can remember who was just plain obnoxious, the chairs of the various committees knew that Leon was doing a job that had to be done and they knew that if their party lost its credibility as being able to make sound budget policy that they would lose their influence ultimately, so they worked together and they found ways to come up with solutions to their problem. And John Spratt, with whom I worked later was—and who was a member of the committee back in 1991 and 1992 when I was there, fits into the same mold. So it’s an awkward institution. You have to work with the leadership even though they’re concerned about not having enough money to do all the things they want.

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02-00:00:00
Meeker: Can you give me a sense of your work for the House Budget Committee while you were there in ’91 and ’92.

02-00:00:12
Minarik: First of all, Leon was the greatest person to work with. I had had somebody tell me that you don’t want to work with Leon Panetta. He has a terrible temper. Well, I discovered that under extreme circumstances Leon did in fact have a temper and I was on the receiving end of that once. And no, I didn’t deserve it. But it took a little while to get to understand how he thought and what he needed to do his job. Because, of course, everybody’s different in that. But we’re still friends. Certainly have the routine responsibilities and then there were other things that we did which was his creativity doing things that he thought would help to solve the problem. Of course, in 1991 and 1992, people were very worried about the budget situation.

We did two budget resolutions and that was, as I noted earlier, a labor-intensive process. He had to work with all of the folks, all of his colleagues on the Democratic side in the house and try to work out what it was that would bring them together and enable them to support their resolution. There were a lot of people who, as a matter of reflex, did not want to vote for a budget resolution because a budget resolution includes realistic choices for policy and when times are bad, realistic choices for policy give you a budget deficit, in some instances a substantial budget deficit. There were people who took the attitude, “I will not vote for anything that says that we should have a budget deficit. Oh, and by the way, I have no idea what I would do so as not to have a budget deficit.” So Leon in floor debate always reserved a certain amount of his rhetoric for folks who would not vote for anybody’s budget. There were amendments that were offered.
Meeker: So in other words, both cutting spending as well as increasing revenues would have been objectionable to—

Minarik: Yeah. “I won’t raise revenues, I won’t cut spending and I don’t want a deficit.”

Meeker: So therefore I just simply won’t participate. Well, this is what’s happened in recent years when they’ve failed to pass budget resolutions.

Minarik: And, in fact, in some respects it’s gotten worse. But in the two years where I was there, Leon always managed to get a budget resolution through.

Meeker: Well, I know that you weren’t there prior to the passage of the 1990 Budget Enforcement Act, but I’m wondering if you can give me a sense of the degree to which that, the provisions of that act, strongly influenced the work that was done by the committee.

Minarik: The 1990 Act fundamentally changed and improved the budget process. The changes in the Act included changes in policy and changes in the process. The changes in policy were very helpful but the benefit that they provided was masked by the fact that as the negotiators were sitting there speaking the economy was falling into a recession.

So it was very hard in subsequent years to convince people that, yeah, the budget got worse after 1990 but if it had not been for that agreement it would have been worse still. That is kind of one degree beyond the analytical ability of many folk, especially if the simpler interpretation is more politically convenient. So the people who made that agreement deserve a lot of credit and one of the things that I took from the time that I spent with Leon was that he had a tremendous amount of respect for President George H.W. Bush. A tremendous amount of regret that he walked away from that 1990 agreement because of the fact that it violated his, “Read my lips, no new taxes,” pledge.

Meeker: Walked away, meaning he didn’t own up to it?

Minarik: But 1992, he was willing to say that it was a total mistake. He wouldn’t do it again if he had to do it over again. But Leon’s sense was that he was honest and courageous in doing it the first time and that he should have gotten credit for it. But beyond the changes in policy, there were the changes in process. And I was not involved in that negotiation but there were a number of smart minds who looked at the way the budget process had worked in the late 1980s, which were the Gramm-Rudman-Hollings years. Looked at why the
incentives of Gramm-Rudman-Hollings were not effective and came up with better ways to accomplish the results. They included primarily the—

Meeker: PAYGO.

Minarik: —pay as you go for taxes and entitlement spending and the cap for discretionary spending. And that process was much more effective at the end of the day than the prior processes. More realistic. Eliminated the way the prior system worked, where if you were in the middle of a year and the budget was getting worse you were chasing your tail trying to make the money up. And given that a lot of the times when the budget’s getting worse it’s because the economy’s getting worse and if, at such a time, you cut spending and raise taxes you’re actually making the economy still worse. You wanted to have a system that instead said in bad times steady as you go, in good times don’t spend the money. Steady as you go then, too. And the revisions to the process in 1990 were highly effective in that regard. So the 1990 Act was an important part of the evolution of the budget process and highly beneficial and I had absolutely nothing to do with it. So credit to the guys who did.

The other things that we did in 1991 and 1992, Leon gave a series of floor speeches on what the problems with the budget were, which I wrote for him and that was part of the time when I would spend time with him and we got to understand how each other thought and work together more smoothly.

Meeker: What was your diagnosis of what was wrong with the budget? I haven’t seen these speeches. That’s something I should definitely take a look at here.

Minarik: Yeah. I think there were two long ones in the end of the day speeches after they stopped taking votes. Something orders. Special orders. Yeah. Really at that time, pretty doggone simple. It’s not that different from where we are today. We cut taxes too much and we had increasing entitlement costs and we had to be realistic about both of them. And Leon was willing to be honest about the need to get together and do a bipartisan deal and he understood that what had been done in 1990 was in fact helpful even though, because of the deterioration of the economy, he didn’t see the fruits of it. And he was one of the few people who was willing to be straight about the situation..

Meeker: Meaning putting both spending and revenues on the table.

Minarik: Yeah, yeah.
So at this point in time, ’91, ’92, the budget deficit and the accumulated national debt is getting worse and worse and worse. Was it seen as reaching a crisis point? Was the concern bipartisan and widespread?

Yeah. And, in fact, that gets into what I think is one of the most important things that we did in that time. Leon decided that the budget committee, on a bipartisan basis, could get together and write a report. Not a piece of legislation, but a report that would analyze the budget problem and come up with, as specifically as we could, the guidelines for a solution. And the way we were going to do that was to start having a series of private off the record meetings of members of the budget committee and we would—he would have me walk the members through the budget, the major components. Here’s the entitlement part of the budget, here are the major programs, here’s what their problems are, here’s what the outlook is, here are some possible solutions. Next week here’s the discretionary part of the budget. Let’s go through the programs, see what you can do. Here’s the revenue side. We went through a series of meetings in private. Attended relatively well, given that members of congress have got things to do, by good numbers of both parties. The meetings were extremely constructive. We had one meeting that was attended—it was the only meeting he attended. A member of budget committee from the Republican side who is now the governor of Ohio but I wouldn’t dream of naming him.

Later had presidential ambitions?

Yeah, yeah. And he basically closed the meeting. He went into an oration and by the time he was done everybody had left. But other than that one, we went through the entire budget. The meetings were all, with that exception, all, I think it’s fair to say, very constructive. Members on both sides engaged. They were frank. I got to know some of the Republican members and actually—some of them I think I could say I still have reasonable relationships with. I don’t know how many of them remember me. Many of them moved on. Jim McCrery from Louisiana stayed after one time and we did this whole one on one thing about one particular question. Went on for some time and he’s a very nice guy. Obviously came from a different place than I did but we were able to get the facts on the table, talk about what potential problems were. Amo Houghton from New York was also extremely engaging, extremely helpful. Came up to me after one of the meetings and was very complimentary about how it all went.

What ideas came out of these meetings?
We were really at the analysis phase and we got to the point where the next meeting was supposed to be now let’s start to talk about what the possible solutions would be. And at that point I believe it was Amo Houghton went to Leon privately and said—and I found out about this when I showed up for the meeting and lo and behold there were no Republicans in the room. And Leon said that Amo Houghton had said that the instructions had come down from Newt Gingrich that the Republicans were not to participate anymore.

So at that point, Leon decided that, well, we put in all this investment. We should go ahead and we will write a report and we’ll have to allow the Republicans to do their report and we’ll put them together and publish them as a volume and it’ll be the Democratic views and the Republican views. Which we did.

Do you recall the title of the report?

I may actually have a spare copy and I’ll go and look for it.

I feel like I’ve read it but there’s so many of these reports right now.

Yeah. This one, I’m not sure that it necessarily would have gotten a lot of attention. But I’m happy to give you one. I think I have one. And actually this was one of the bonding moments with Leon, when we were getting done with it, because I had—different people wrote different sections of it and I was the one who was supposed to assemble it and I wrote some of the overall parts of it. Wound up doing a lot of editing with some of the things that people gave me, which is one of my—sometimes I get on people’s nerves but I have my own—doggone it, they’re words. They got to go together right. But when the final report came out, and Leon had edited it, too. Leon uses a blue felt tip pen, which is a very broad marker, and his handwriting is very systematic, very attractive. The only problem is you can’t read it. There is somebody who works for him who is the official Leon translator. So whenever we got to a part of his sentence that we couldn’t read I had to run across the street to Diane and ask her to tell me what it was and she’d read it for me. But when the thing was finally printed, Leon said to me, “You know, I had no idea how good our report was until I read their report.” It’s just one of those moments.

So in any event, the one thing that that might have done—I have absolutely no reason to—I have no evidence. But it may have raised Leon’s profile just a little bit, which was already reasonably high. But I’ve often wondered whether
my major contribution in the time I worked for Leon was to get him to the attention of Bill Clinton when he was elected President. He didn’t need it but it may have helped a little bit.

02-00:17:21
Meeker: Well, this was 1992, right? Did you play any role in the election? Obviously you were partisan, but were you participating in the election?

02-00:17:31
Minarik: Well, there were very strict rules about the work you could do and when you could do it. There were problems in the Clinton campaign in the sense that there were folks there who were doing budget work who didn’t understand the budget. So there were some errors being made in numbers and so we would—

02-00:18:04
Meeker: Resulting in *Putting People First*?

02-00:18:06
Minarik: Well, by the time *Putting People First* came out I think we had a lot of that straightened out. For example, if you look at the CBO budget, the annual, now semiannual books they did, ways to reduce the budget with a list of policy options, if you look at the spending changes they’ll have reductions in budget authority and reductions in outlays. And somebody in Little Rock thought that the way you got the savings, if you took one of those options, was you added them together. So we had to straighten that out. And all the work was done off of normal working hours. You could not impose expense on the federal government for doing that work. So we had a fax machine in the office and we got an extra telephone and plugged the telephone into the fax machine so that you could dial and then send a fax on your personal credit card so that the bill for the—if you just used the fax machine it would go on the federal government’s dime. So I think that when the campaign was done, I totaled up my credit card bills and I had spent something like $1,500 on faxes.

But it was all within the requirements that were imposed. And that, too, I think probably contributed to some extent to the fact that by the time Leon—by the time the election was over the President asked Leon to be his OMB director.

02-00:20:03
Meeker: So during this election period of time, there’s the accounts of various individuals thoughts about Clinton’s, candidate Clinton’s, anticipated fiscal policy. There were some people who were great advocates of it, people like Robert Reich, and then there were other people who apparently were very critical of it. From what I understand, Leon Panetta was one of those, Alice Rivlin, Bob Rubin. Other people like that were not—they weren’t believers in the putting people first Clinton agenda. I’m kind of wondering what you felt about his, candidate Clinton’s, economic agenda.
The economic agenda of a candidate is always—in the economics literature, in terms of putting together factors of production, one of the questions is are things changeable or not and the metaphor is putty and clay. A campaign agenda is almost always putty. You’re putting together ideas. There are things you want to do. The world is changing under your feet and beyond that you don’t know what the political circumstances are going to be when you’re in office. I think I was always optimistic that at the end of the day there was an appreciation in the President’s mind that we had serious budget problems. And he always said so. He also said that there were other things that he wanted to do. The question is what do you do when you take your aspirations and you subject them to your constraints. And I think I always had the sense that there was a very good chance that the President would make decisions that would respect the constraints.

What gave you that indication?

The campaign certainly had an interest. The reason why they wanted to talk to us was how do we put together the things that in fact will make room in the budget to do the things we want to do. So, for example, the fact that they were adding together budget authority and outlay savings for policies that saved money meant that they were interested in policies that saved money. So yes, we did have to provide a lot of that kind of information and it gave me the sense that they were concerned. And the fact that they would work with Leon’s staff also was pretty clearly an indication that they were not taking the concerns that Leon expressed as being an indication that they didn’t respect him and didn’t respect his views and didn’t want to have his input.

Well, maybe I can get you to comment on the way in which it’s talked about in historical literature. And it may be presented in too stark of terms but get your feedback on this. There is sort of the narrative, I guess, that candidate Clinton creates putting people first. His main advisors are people like Ira Magaziner and Robert Reich and really mostly interested in a domestic investment stimulus even. And then there’s two major influences, maybe three is probably the better way to put it. There’s the Perot candidacy, right, with all his charts. Deficit and debt becomes a much more pronounced political issue. Two, shortly after the election there’s the recognition that the budget deficit is much worse than originally projected. And then, three, the coming dominance of people like Robert Rubin and Summers and perhaps even Greenspan to Clinton’s way of thinking. Those meetings in Little Rock in December. That he really pivoted substantially from moving away from orbit. A traditional sort of Keynesian Democrat to one who was becoming more of a new Democrat deficit hawk. What is your thought on this narrative?
Minarik: Well, the best information that I can provide and the direct sense that I had. Number one, he did select Leon to be his budget director. Number two, in those meetings in Little Rock, he asked Leon to present his ideas for what a budget should look like. I did the papers. So it was the standard Leon House Budget Committee approach to we have a problem, we got to solve it. A lot of the kind of ten year horizon. How do we get the budget deficit under control, get the debt to top off and stop growing relative to the size of our economy.

Meeker: But prioritizing debt reduction.

Minarik: Yeah. And having in there some space for doing other things. But yes. The debt control and the deficit reduction part of it was a constraint that had to be respected. I’d have to go back. I have not done the heavy lifting that I’d have to do, to pull out the pads where I took notes in all those meetings. And so I’m not sure in which of the two meetings we came to the particular moment. But there was a time when everybody had had his or her say and the President was coming down with his conclusion. President-Elect then. And literally I was sitting there not sure where he was going to come down. And he went through all of the reasons why you wouldn’t want to worry about controlling the budget deficit and the things you wanted to do. Yeah, there might be macro economic consequences that would be adverse and if the economy gets worse the budget’s going to get worse anyway. But this is something we have to do and we have to do it because it’s the right thing to do. And I do kind of remember sitting there and kind of—the weight coming off my shoulders. He’s going to do the right—and he told Leon to press ahead, put this thing together.

Meeker: Was this at a meeting in Little Rock?

Minarik: This was in Little Rock. Yeah. And the decision was made then that that was what we were going to do.

Meeker: Who do you suppose the most influential people advising him in this regard were?

Minarik: Certainly Leon in the sense of giving him the overall picture of where the budget was, where it was going to go. If you didn’t solve the problem, how much you’d have to do to cut the problem off. The two people in my memory who were the most positive in that room in terms of the economic side of it were Rubin and Larry Summers. I believe it was Larry who made the most cogent argument that if you in fact reassured the financial markets—
Meeker: Bond market.

Minarik: —that you were going to address the problem, that you would get space with interest rates and that would help you to maintain an economic recovery even though the fiscal effects on the economy would in theory be negative. There was certainly the sense, and I was not a party to those conversations, but there was the sense that Alan Greenspan did provide reassurance on that score to the extent that he or any other Federal Reserve Chairman can say anything explicitly about what future Federal Reserve policy will be. And the one thing that I think economists are willing to say with confidence is that a strong and sensible Federal Reserve chairman will not change or fail to change policy on the basis of a promise. You got to deliver. So I’m sure that there may have been a sense on the part of the President that there was some kind of a commitment if he could put a program together and get it through the congress. But it had to be done. The Federal Reserve would not hold interest rates down on the basis of good intentions other than promises on the part of the President.

Meeker: Do you recall what the argument was that was linking deficit reduction to a positive response by the bond market and thus lowering of interest rates?

Minarik: Just very fundamentally the notion that the bond market is driven by supply and demand. If the demand for credit is higher, the price is going to go up. And the notion that the federal government is making changes in its policy such that there will be a significant reduction in the anticipated demand for credit on the part of the federal government simply means that the market is going to be looser and the price is going to go down or fail to go up. The notion that the Federal Reserve Chair will facilitate that reaction by keeping credit more plentiful if the policy in fact materializes.

Meeker: Was there not a sense at this point in time that this notion of crowding out a credit may have been a strong reality, say, in the sixties and seventies, but by the 1990s, with the globalization of credit, maybe that was no longer a legitimate fear?

Minarik: Well, as we discussed among ourselves, foreigners are willing to lend to us, but we’re also lending to the foreigners. There are flows going both ways. If you are in a circumstance where the United States appears less attractive as a borrower, there will be adverse effects. And as we’re learning today, if you get to the point where you are relying heavily on foreign lenders and if foreign lenders have to take into account that not only—it’s possible that not only the price of their bonds is going to fall in dollars but the dollar may fall in value relative to their own currencies. So they could get double whammied if they
overstay the party. The fact that you have foreign credit to rely on may not necessarily be an unalloyed blessing.

Meeker: Was that understood at the time?

Minarik: I don’t think it was as well understood at the time but we certainly did understand then that the money flows both ways.

Meeker: So Leon Panetta is offered the position of director of OMB. Did he immediately offer you a position at OMB as one of his deputies?

Minarik: Yeah. Essentially immediately. I think it was the same day. He had to get a sense of what the lay of the land was there. The sense that I got from him was that he wanted me to come along. He was pretty sure that there would be a place to put me and yes, I was on the list.

Meeker: Good. And you never had any question of wanting to follow him to OMB?

Minarik: No.

Meeker: Okay. What exactly was your title when you arrived at OMB?

Minarik: I did the same job for all the eight years. The formal title is associate director for economic policy. Sometimes shortened to chief economist.

Meeker: Okay. And there are, what, half a dozen associate directors, aren’t there?

Minarik: When we arrived there were five and we created a new one for health policy. Before health policy had been rolled into one of the other.

Meeker: Okay. All right. What was your agenda as chief economist there?

Minarik: Essentially what we did was we went into very nearly around the clock developments and reprises of the meetings that we had had in Little Rock. We were developing the program heading up to the release of the “budget”. The 1992 election yielded the first unfriendly takeover of the White House since the enactment of the budget act. The budget act took the date, the statutory date for the submission of a budget and moved it from before the inauguration to after. So for the first time, in 1993, you had a new president from a
different party, which meant that the hierarchy at the OMB is totally changed, responsible for submitting a budget.

Meeker: So that didn’t happen in 1980?

Minarik: I’m sorry. You’re correct. 1980, that was true. I err. But the phenomenon that that lets loose is a total mess. You’re in a position where you have controlled access to the personnel at OMB, which essentially says that a small number of trusted people are allowed to go to you and talk to you about what you are going to do in putting together your “budget” and then they take that information and they go back to OMB and give people orders. And people are serving two masters for a period of time. You’ve got the prior political hierarchy who are in the process of getting themselves out and then you’ve got the new guys who are sending in orders through these emissaries. And over all this time you’re essentially—if you take the law literally, you’ve got between ten days and two weeks to put a budget together. 173,592 into two doesn’t go. So you are doing the early stages of what you’re going to produce. There really weren’t any good—I totally forgot about the 1980 experience. I have no idea how that worked but it was quite difficult to get that process going.

Meeker: It sounds like it was messy, as well.

Minarik: It’s very difficult.

Meeker: Because Reagan did a bunch of the rescissions of the budget, as well. So yeah.

Minarik: Yeah, yeah. For us, it was not so much the reaching back but it was proposing the significant changes going forward and we were doing all sorts of painful stuff in the first instance and there were a lot of Democrats who didn’t like it. And it was fairly early on in the pre—no, wait a minute. It was actually post-inauguration but pre-confirmation of a lot of the big guys. We had a meeting of the economic team in Lloyd Bentsen’s office in the senate and he reported that he had had some conversations with the Republican leadership and said the President is going to take a serious run at the budget. “Will you work with us?” And the answer was, “Screw you. We’re not going to lift a finger to help you. You can do it all on your own.” Now, there was a sense in the message that it was payback for some of the experience in the late 1980s, I think particularly in 1986 when President Reagan talked about cutting back on Social Security COLAs to reduce the budget deficit and Democrats took advantage of that and as a result retook control of the senate.
Meeker: So this is sort of the Domenici factor.

Minarik: I don’t know who. Senator Bentsen never said to whom he spoke.

Meeker: Interesting.

Minarik: The expletive that I supplied was not a term that Senator Bentsen used. So I don’t know exactly what was said. However, it was very clear that there was not going to be any help.

Meeker: Well, this was actually a point of conversation that we just had with Bill Hoagland. The way I posed it was that you have a Democrat coming in who is in essence becoming a deficit hawk, and although interested in raising revenues, also is interested in cutting spending with the goal of reducing the deficit. And, again, an agenda of that—a Republican like Alan Greenspan was willing to get behind. And it seemed shocking to me that Clinton, for his ’93, fiscal year ’94 budget, was unable to get any Republican votes in the senate, even moderates like Domenici and Dole who had presented themselves as deficit hawks. Here comes along a Democratic President who’s presenting what someone like Greenspan was calling a responsible budget yet there are still no votes in the senate among Republicans for this package. The other side of this equation it sounds like is what you’re recounting via Lloyd Bentsen.

Minarik: Yeah. I’m sure that part of it was a judgment on the part of Republicans that, as they would say today, we don’t need more revenues. We need less spending. And if you believed that very firmly, then the notion of a plan that achieves half of the savings on the revenue side and half—a little bit less than half on the revenue side, a little bit more than half on the spending side is not good enough. And I’m sure there was a part of that. There was the political tit for tat. On the political side, it’s got to be extremely tempting. There’s all this painful stuff in there. You offend people with the spending reductions and in exchange you offend them with the tax increases. If you can get the other guy to do that, A, a very important public policy problem is being solved and B, people will hate him for it. So, sure, it’s got to be extremely tempting to stand back and let the other guy do it to himself if he’s willing to do it. I have to say, in retrospect, the President deserves—President Clinton deserved an awful lot of credit for taking that on. And by the time you got around to 1996 and people saw not only the budgetary benefits but also the fact that the economy was performing as well as it was, in some sense he was rewarded. But he was rewarded also with a constant headache for the last six years of his term with a congress controlled by the other party.
Meeker: And a particular wing of the other party, one might add.

Minarik: Yeah, yeah. In many respects absolutely.

Meeker: In the development of this fiscal year '94 budget, being that you were really a tax expert, I’m wondering what were the various options that went into increasing revenues and how was it that the particular solution, the policy that was arrived at actually became that. And was this something that you were involved in?

Minarik: Yeah. I’m not going to be able to give you the most detailed answers to that. I had conversations with my opposite numbers at Treasury. There was a sense over there at some point that I might try to interfere and there was a little bit of arm’s length thing. I didn’t have any intention of interfering and by the time the whole thing was done—at one point I got a little bit of a rebuke from one of the higher level guys over there when I started to engage in a conversation with a guy at my level in the tax part of Treasury. By the time it was over, I think we all got along very well and there was an appreciation that we were all trying to pull together. One of the guys over there remains a very good friend. See him every now and then. He’s back in New York and I bump into him every now and then. We continue to get along very well.

In terms of the options. I’m trying to kind of rack my brain and come up with some of the particular things. Among the things that come to my mind are some of the—one of the things that was contentious and remains something of an issue was the handling of very high income executive compensation. There was a goal of making compensation performance based. So there’s kind of a surtax on very high incomes of corporate executives unless they got the money through stock options that had a particular minimum duration. I spent a lot of my time scratching my head and saying, “You don’t want to have a stock option that has a six-month duration because then all the executives can try to do is pump up the value of the stock. Well, if instead you have a stock year with a three-year duration, two and a half years from now it’s a six-month stock option so what’s he going to do.” And I was assured that there were ways to make that work. I think certainly the objective was good. I’m not sure that the means that were chosen were all that effective. Next time we get together I’ll see if I can spend some time going over some of those items and see what kinds of memories that brings back.

Meeker: Just thinking about the sort of political dimensions of it. Did the budget ever come back to the OMB based on negotiations and saying is there a way in which we can improve this so that we might be able to secure Republican votes for its passage?
Minarik: Not to my knowledge. And by the way, among the revenue options—and it’s getting into another policy area—but of course there was the BTU tax. Which we can talk about separately.

Meeker: That was Gore’s agenda.

Minarik: Yeah. Yeah. And that was the subject of a lot of conversation. But in answer to the question you asked a moment ago, I do not recall there ever being a sense that there was a second window to possible Republican support. I think we were pretty much set from the very beginning with the notion that this was going to have to be done on the Democratic side.

Meeker: So then it was a matter of securing all the Democratic votes, which the White House was not successful in doing.

Minarik: All the ones you needed.

Meeker: All the ones you needed.

Minarik: Yeah. I think it was pretty clear fairly early on. I can’t remember names but I think it was pretty clear that we were not going to—we were going to lose some guys.

Sharma: So just with the few minutes that we have left, then. A few points of clarification from earlier, from about an hour ago. You mentioned—this is back in the early eighties—that there had been a Republican who had contacted you with his or her reservations about the proposed ERTA tax cut. Do you remember who that was?

Minarik: It was Stewart McKinney. He was a Congressman from Connecticut.

Sharma: And do you have a sense that that was a widespread feeling of—there was a widespread feeling of reservation on the Republican side?

Minarik: I had no other evidence that that was true. I’d probably go looking at the same sources you would to see if there were any other signs. But nobody else came to me. Congressman McKinney never suggested—and I actually never sat down with Congressman McKinney. There were a couple of people from his staff with whom I spent a lot of time. I never got any suggestion from them that we’ve got seven other guys who have heard about this and are interested.
Right. The feeling that we’ve gotten through our interviews has been that there were a number of Republicans, and even certain Democrats, thinking of Tom Daschle, who was in congress at the time, who ended up voting for the tax cuts but had reservations. At least on the Republican side did it because that’s what you do with a new president from your party. You just go along. Maybe step out of your policymaking shoes and thinking about your own intellectual development. The development of sort of the academic thinking about taxation policy. I’m interested in the way in which today, and I think it’s been the case for a few decades now. There’s somewhat of a consensus on the need to lower rates and broaden the base. This is sort of the phrase that’s commonly used. Has this been a pretty consistent belief over the last couple of decades? Where did this idea come from? Are there other competing schools of thought about tax reform?

There were a couple of people who were very important in the thinking about that issue. Joe Pechman certainly was one of the early guys to talk about tax reform. Stanley Surrey, who was an attorney who served in the Johnson administration, I believe, as the assistant secretary for tax policy and was one of the originators of the concept of tax expenditures, was also extremely important there. There was a popularizer of the idea who was Philip Stern, who was one of the Sears heirs whom I got to know and it was really quite neat. When I was a senior at Georgetown I wound up meeting him and I had a copy of one of his books. He wrote two books about tax reform and I got him to autograph it and then later on, in 1986, I had written a book for the Urban Institute about it. And I’m not even sure that he remembered who I was but he asked me to autograph my book.

And at that point the connection was made. It was really kind of a trip. Those are the three people who come to mind but there are all sorts of other people. There was one of—I think he actually wrote with Stanley Surrey sometime. Paul McDaniel was another attorney who was important there. There was a period, and it’s still there to an extent. But there was a period when a significant part of the tax policy community, going more toward the conservative end of the spectrum, was talking about not reforming the income tax but rather replacing it with a consumption tax. And people started thinking about ways in which you could come up with a consumption tax that would fill in, completely fill the income tax’s shoes and there are different ways of doing that. One of them was the so called consumed income tax and a variant of that that’s gotten the most attention is the so-called [Sen. Sam] Nunn-Domenici proposal, which was worked out under the auspices of the Center for Strategic and International Studies, which is still here a couple of blocks away in Washington. So Senator Domenici was heavily involved in that. Rudy
Penner at the Urban Institute was one of the advisors to that project and I don’t want to speak for Rudy because I might not give a fully nuanced expression of where he is, but my sense from talking to Rudy is that in the course of working on that project he came to lean fairly heavily in the direction that this thing could never be made workable. A lot of the analysis of a consumed income tax has always been here’s this messed up income tax through the workings of the imperfect legislative process. Here’s this academic pristine consumed income tax that has never collected a dime in revenue. It sure does look a lot nicer than this messy income tax. Well, when you figure out by the time they get done legislating it it might not look as nice as it does right now.

We’re now in a world where I think the consumed income tax as an alternative to the income tax has pretty much gone away. You’ve got a kind of an alternative view that a national sales tax could replace all of the revenue that the income tax now yields and I think I am convinced by the body of analysis that says that is not going to work, certainly not if you put any weight on the distributional effects of the tax. You simply can’t get a sales tax to come through without overburdening low and moderate income people.

02-00:55:58
Sharma: Right. That it would be a regressive sort of tax.

02-00:56:01
Minarik: Yeah, yeah. Just like a flat rate income tax.

02-00:56:02
Sharma: Exactly. Yeah.

02-00:56:03
Minarik: You take care of low income people with large exemptions, or in the case of the sales tax credits. Well, if in fact you do take care of them, then you have to face the fact that the rate is going to be too low at the upper income level and you’re going to have big tax cuts with upper income taxpayers. Well, if you’re collecting the same amount of revenue, again, it’s the zero sum game. And middle income groups wind up getting clobbered.

02-00:56:28
Sharma: I see, okay. And that would be sort of the same thing, even with a value added tax, as well.

02-00:56:33
Minarik: Yeah, yeah.

02-00:56:34
Sharma: Sort of a flat tax would limit your flexibility.

02-00:56:38
Minarik: Which is not to say that a value added tax couldn’t work as a supplement to the income tax.
Sharma: Right, right. Okay. And then another interesting development is that the payroll tax has surpassed the income tax for so many people.

Minarik: Yes.

Sharma: A little point of clarification. It’s so qualitative I don’t think one can really get around it and especially you coming from the policy side. But with respect to Clinton’s early decision to embrace deficit reduction. I think another argument that can be made is that this was also a political decision, that he already was thinking about his reelection and positioning himself as more of a centrist. And that embracing deficit reduction is a way to position himself both—as independent from both the left and the right. Do you give any credence to this sort of view? In other words, how much was good policy driving his decision to do it or were there political factors involved?

Minarik: When I spent time with the President, I was in comparatively large groups. If there was some kind of a grand strategy behind this, I don’t think it is the kind of thing that would have been discussed in those kinds of groups. I suspect it would have been something that would have been the President and maybe Leon and Lloyd Bentsen and maybe Al Gore and maybe others who were particularly close to him. But probably half a dozen people tops. I was not in any of those conversations so I can’t say that I know for sure. But, number one, I heard nothing of it in the discussions in the larger groups for what it’s worth. And number two, that would really be pretty much of a stretch of a political strategy. It’s kind of hard to imagine, number one, doing stuff that hurts a whole bunch of people for their own good but they don’t know it is going to advance your cause, even if you’re willing to think ahead and come to the conclusion that, yeah, the economy will develop well by the time you’re getting into 1996. That would be a hell of a gamble. And, number two, I’m not really sure that President Clinton became a centrist and then decided for that reason to be a deficit hawk or whether the problem of the budget deficit hit him in the face and in addressing it he therefore became a centrist. I’m not sure whether the chicken or the egg came first.

Sharma: Right.

Minarik: He was a member of the DLC. So in that sense I think he was—you could say that he was pre-identified and predisposed to be a centrist but I’m not sure that that takes you as far as to suggest that the budget program was the way to achieve that end.
Okay. And then to clarify about the dispute that you had with some people at Treasury over tax increases in the early years of the Clinton Administration. Was it Treasury that was pushing back on limiting executive compensation?

Well, actually, that was not the cause of the particular rift or tiff that I had. I am not sure that I can identify the constituencies there. It’s a long time ago. To the extent that we had the conversation, it got fairly convoluted, as you might imagine with something like this. I’m thinking that it was from the relatively liberal wing of the team that said we’ve got to screw down on executive compensation unless it comes from performance based stock options.

Right. And do this through the tax code.

Yeah, yeah. And Lloyd Bentsen, from his time on the finance committee, and also with the folks who were sitting next to him from the Treasury Department, was, if anything, predisposed against trying to use the tax law to try to fine tune outcomes.

I see.

Certainly he had his own interests in using provisions to pursue objectives in the tax code. So, for example, he came from Texas. Need I say more? But all else equal, I think he would be a cleaner is better kind of person.

My understanding is that actually Bob Rubin was one who was sort of pushing for tax increases and a key player in that respect.

Yeah. He was certainly one on the side that we ought to be reducing the deficit and one of the ways you do that is increasing revenue.

Yeah.

People like me should pay more.

Right.

Good on him, yeah.
Sharma: Something we forget about.

Minarik: Yeah. Oh, yeah.

[End of Interview]
Meeker: Today is the 27 of April, 2011. This is Martin Meeker interviewing Joseph Minarik for the history of debt and deficits project. This is our second session. I want to pick up where we left off last time. I believe that we started to talk about early Clinton administration, but I don’t think that we really went over the ’93 budget agreement all that much. I’d like to start there. You were in OMB by then. You started right away. Being that you had an expertise in taxation policy, I’m wondering if you can maybe walk me through the different options that were on the table from the White House’s perspective about things that they were going to try and why it was that certain things succeeded—the increase in marginal rates, for instance—and other things didn’t, such as the BTU tax that was Vice President Gore’s goal.

Minarik: Right. On the Democratic side of the aisle, of course, there is a strong inclination to impose taxes at the high end of the income scale, not taxes that will apply to typical people. Basically, the options that were on the table were increases in the highest marginal rates. There are awkward parts to that, because you start getting into taxes on capital gains, where there’s an inflation element, which makes people somewhat reluctant to increase them. That had to be handled in a gingerly fashion. The top rate was put into place as a kind of surtax on upper incomes.

By the time that was done, there wasn’t enough money in the till, so they had to look for some additional things to do. The vice president, as you noted, was, back even then, concerned about the phenomenon of climate change and wanted a tax on carbon emissions. We started with that. It was kicked around the road to some degree. Eventually, if my recollection is correct, went to the House floor, was voted on. When it got to the Senate, there was considerable discomfort with that idea. It was decided that, instead of that, there would be a tax on gasoline. The major problem with the BTU tax was the relative effect that it would have on different sources of energy. Not so much as a carbon tax, I don’t believe, but certainly more than an across-the-board tax on the value of energy. The BTU tax has the effect of hitting some sources more than others. There was something of a rebellion on that front, concern in particular about coal. For that reason, by the time it got to the Senate, given the different balance of influence in the Senate—two members from each state as opposed to heavy concentrations in urban areas—the decision was that, instead of the BTU tax, there would be a tax on gasoline. That raised its own issues, because typically what happens is that the gasoline tax goes into a trust fund for construction of highways, so outlays follow increases in revenues, which means that you don’t get any deficit reduction out of it. There was a deal cut where most of that would go into the general fund instead of the highway trust
fund. I believe it was started at the very beginning to be effective for a period of time and then to expire. I think I’ve got that right.

Then the discussion was over the amount of the increase in the gasoline tax. For reasons that I’m not quite sure, they settled on 4.3 cents per gallon. That became a very hard line, very sharply drawn. There was one particular senator, I recall—I wasn’t in the room, but it was relayed back that the senator said, “You go up from 4.3 cents to 4.4 cents, and I’m off.” People somehow got comfortable with 4.3 cents. So you had that. You had the increase in the upper rates. At that point, the numbers started adding up.

Minarik: When you say the numbers started to add up, I assume your workings in Congress with OMB—are you getting a message from the president and chief of staff and Treasury saying, “This is our goal for the amount of revenues that we want to raise,” and then you propose various scenarios based on your knowledge of the budget in order to get to that number?

Minarik: You have a couple of constraints, and they can come from different directions. One of the constraints, fairly early on in the discussion, was that there would be no more than a 50 percent share of the deficit reduction coming from taxes. Since that time, as negotiations like this have gone on, attitudes have changed a little bit. At that time, we had, under the OMB scoring, very nearly a fifty-fifty revenue spending split, counting debt service reduction as spending. It may be because, nowadays, we typically look over longer periods of time, and over time, savings in reduced debt service compounded can get very large.

Meeker: It becomes its own separate area.

Minarik: Yeah. Typically, when people are demanding fifty-fifty, you take that off the table and you’re looking at changes in revenues as opposed to changes in non-interest spending. If you think about it from the point of view of a public finance textbook, what you believe you ought to do is sit down and take every individual federal spending program, and all of the federal tax portfolio, and look at the margin, what you’re getting from each spending program, how much it costs you to raise the funds, and taking into account the fact that there are costs of raising revenues that go beyond the revenues themselves. You expand programs to the point where they’re no longer at the margin, providing net additional benefits. That’s how you do it in the classroom. You can’t do that in the real world. The first thing you’re going to do is argue about what the benefits are, and then you’ll argue about how much it costs to raise an additional dollar of tax revenue. You’ll never finish with the first program.

Typically, when negotiations like this start, you start out with very cosmic decisions about how much are we going to get in spending, how much are we
going to get in taxes. You get into situations like the mythical Ronald Reagan three-for-one deal, back in the 1980s. The sense was, in 1993, that there was a constraint at a fifty-fifty split, counting debt service as spending reduction. That was where we wound up.

There are these situations that seem kind of invented, right? Like you said, we could do 4.3 cents, not 4.4 cents a gallon. Then there’s this fifty-fifty split. Where do these lines in the sand, or maybe lines in the cement, come from? Is it just kind of part of a zeitgeist, or is there political research behind this calculation, do you suppose?

I don’t know that there’s political research, and I’m not aware that anyone ever did a poll about 4.3 cents versus 4.4 cents. A lot of it clearly comes from nose counting. You will recall that in the House and the Senate, there were zero votes to spare on the 1993 Budget Reconciliation Act. All of the votes were Democrats. That being the case, and it was pretty clear fairly early on that there weren’t going to be any Republicans in either chamber who were going to be involved, you could have some very private, very frank discussions about what people would do. I can’t imagine that the senator who came up with the 4.4 cents—and I’m offline—would have dared to say that in public. That being the case, you’d get down to really counting nostrils and dividing by two. That’s how close it gets. At the end of the day, there was one final undecided senator, who actually announced that he would vote for the Budget Reconciliation Act upon having been told that he could have a presidential commission on entitlement spending.

Sure. That was Bob Kerrey, correct?

Exactly. When you’re that close, if one senator says, I’ll vote yes at 4.3 cents; I’ll vote no at 4.4 cents, you’ve got your line in concrete. That’s it.

When you’re coming up with these new revenues—I want to ask you about the spending as well—is this something which is internal to the OMB, and then it gets brought over to Capitol Hill by maybe the OMB director or somebody? Or are you, at a staff level, working with the Senate Budget Committee staff, for instance, trying to figure out what the Democratic caucus over there is going to be accepting?

It goes through stages. The first thing that had to be formulated was that February 18, as I recall, document, which was the President’s program. That was internal discussion. You get phone calls from Capitol Hill, from people who want to know what’s going on. There’s no percentage in saying anything, so I just didn’t return phone calls. When you get to the point where the
document is out, the Congress makes the decisions. The president proposes, the Congress disposes, as you’ve heard and probably even said in the past. You can try to convince people that they ought to vote your way. There are certain aspects of the process that are unique to one branch of government. It’s probably not very well understood. In the executive branch, you don’t even really have the expertise necessary to draft a law. They just don’t do it. The Congress writes the law. There were kind of awkward times in discussion of tax legislation, also particularly later on in the president’s health care proposal, where somebody says, we’ve got to draft language. Then people start looking at it, saying, who drafts language? Somebody will say, well, there’s a guy at the Department of Housing and Urban Development, who used to work on Capitol Hill, who knows something about that. Why don’t we call him? It might be something that has to do with health care reform.

That’s one aspect where there’s a unique reservoir of expertise on Capitol Hill. The executive branch, of course, knows what the president wants. You do have some resources in the Treasury. The Internal Revenue Service has the tax data. The joint tax committee on Capitol Hill has a pretty full measure of access, but in some areas, you might find that there will be a measure of expertise in the executive branch that the Hill doesn’t have. When it all comes down to the end of the process, you have guys on Capitol Hill who won’t return phone calls, just like I wouldn’t. When it comes to the time when their bosses are the ones making the decisions, they are the ones who are making the decisions. A lot of the discussion, then, will go on. You will have people from the executive branch making trips up there. Sometimes it will be the director of OMB, but if the director of OMB is making a trip to Capitol Hill, that’s, to some measure, news. Surely, a lot of phone calls. Every now and then, people with a somewhat lower profile will go running up there to talk with people. The ball is in their court at that point.

Meeker: Okay. One thing that’s apparent is that, when Clinton is elected and inaugurated in 1993, this is after twelve years of Reagan/Bush. There’s sort of a pent-up reservoir of ideas, I guess, amongst Democrats. I think it’s maybe fair to say that part of the expectation is not that there’s going to be a lot of budget cutting, even given the mounting deficits and so forth. There are a lot of ideas that Democrats now have control of both houses and the executive branch want to try. I wonder how it felt for you to go into the White House at that point in time, and then you’re given this charge of, well, we actually have to cut spending fairly substantially.

Minarik: Well, it didn’t bother me, having worked in the areas where I did. Even back in the period over the formulation of the Tax Reform Act of 1986, one of the first questions that would always arise is, “How can you be talking about a revenue-neutral tax reform when we have this big deficit problem?” Of course, over the course of the eighties, the deficits did subside a little bit, but
the debt was growing faster than our income in the whole 1980s through the
election of President Clinton. Of course, the last two years there, I was
working for Leon Panetta. He selected me and we got along, in significant
part because we both shared the concern about the rising public debt. That was
certainly an agreeable—not a pleasant—but an agreeable agenda to me. It’s
like taking your castor oil. It’s something you’ve got to do.

There were other Democrats on Capitol Hill who didn’t want to hear that. And
yes, there were some problems. Of course, if you go back and you look at the
policies that were enacted in 1993, you’ll see some increases in spending. It’s
often noted that when we have imposed constraints on appropriations, on what
we call discretionary spending, that take effect over a period of time—in those
days, the normal horizon was five years—the cap in the first year was always
a little bit less constraining than the caps in the later years, probably because
there was always some optimism that the fairy godmother might come
between fiscal year one and fiscal year two, and we’ll have some money under
our pillow and we won’t have to go through this. Alternatively, it’s a—bait
and switch is a strong word, but you want to get people to agree to the
process. To agree to have people spend less money, sometimes you have to let
them spend more money for a while. That’s happened before. This was not the
first time that that kind of a process occurred.

There was a lot of negative reaction on the Democratic side. You did not have
unified Democratic caucuses on this bill. You got only the number of votes
that you needed. The famous last vote in the House, Marjorie Margolies-
Mezvinsky, had promised her district that she would vote no. Then when it
came to the point where if she voted no, this was going down, she had a
conversion and realized that this was something that she had to do. She voted
yes, and she paid the price for it. A lot of Democrats lost in the 1994 election,
although, as we may have discussed before, you can argue about whether that
was because of the budget vote or because of the health care debacle. I guess
I’m a health care debacle person myself, but I can’t say that I have polling to
tell me that my gut on that one is correct.

Meeker: So I’m not really quite sure where to throw this question into the timeline. It’s
something that Patrick and I have been talking about as we’re thinking about
various ways in which revenues are generated. Income, as scored to a certain
degree. In the 1990s, one of the major sources of income, of course, was
capital gains on the increase in the stock market. Dividends and so forth.
Especially, you have the emergence of a sort of hedge fund billionaire class.
Their income is not, obviously, taxed at the income rate. Their income is taxed
as capital gains, the way in which I understand it.

Minarik: Finish your question and then we’ll get into the details.
Meeker: It sounds like I’m maybe going off the rails here, and you can help me. I guess the question is, at what point are there conversations about trying to get economies, get revenues, from this new way in which people are generating wealth? And seeing these not as capital gains in the way that perhaps an owner of a business would be taxed on capital gains, because we don’t want to discourage them from expanding their business, versus hedge fund managers and so forth, who are really kind of playing in paper money and getting massive, end-of-the-year payouts that are not taxed the same way as income.

Minarik: It’s actually bigger than a footnote relating to what happened in the 1990s. If you look at the years when you had a real acceleration of revenues in the middle 1990s—1995, 1996—there were surprises. The way they happen is actually kind of amusing. If you have a very high income and you need to write a check, when you actually have your accounting done and you file your tax return, the first thing you do is you don’t part with the check until April 15. If everything else is legal—if you’re not late in terms of the timeliness of the amounts that you’ve had withheld and that you’ve paid in installments and so forth—all you need is an April 15 postmark. It was different back then because we didn’t have the internet we’ve got now, and electronic filing was not, I don’t think, even an option. But even today, if you’re well-to-do and you need to write a check, and you’re on the April 15 deadline because you were timely on your installments, and you meet the test of taxes this year relative to taxes last year and all that, you don’t file electronically. You do it on paper.

Meeker: So that your money can do your work for you.

Minarik: Right, until the check clears. Of course, while that’s been going on, the Internal Revenue Service has been figuring out how to get the checks. They have coupons now that you attach to your return, and the first thing they do is take the check off and deposit it, and then the coupon tells how much was paid with the return. What that means is that to figure out how much money you’ve actually collected involves processing paper that arrives at April 15 plus U.S. Postal Service. In the middle nineties, it so happened the guy at the Treasury who was the point person for the Internal Revenue Service for figuring out how the revenues were coming in, he was also the guy who projected, over the course of the year, how much they could expect. Happened to be a good friend of mine. I would call him, middle afternoon, and just say, “Joel, how are we doing?” I remember in one of those years, I called one day and he said, “Yeah, the season’s over. It was okay. It was good. It’s not knocking our socks off. It was good, but we’re done. We processed the paper.” As I recall, it may have been a Friday. Then, on Monday, the phone rang and it was Joel. I had thought that the game was over. First thing he said to me after we exchanged hellos was, “There’s more money there. We’ve got a lot more money.” It
turned out that, somewhere, they had actually stacked up returns that, for some reason or other, they decided were going to take some time to examine. They all had checks. As a matter of fact, they were big checks. That went on for days. The next thing you knew, we had this revenue gusher that we weren’t expecting.

That’s the anecdotal stuff. The substantive stuff, which goes with it, is that, in the 1990s, if you look at the figures actually where most of the boom came, in Internal Revenue Service terminology, was wages and salaries. Now, some of that surely was highline athletes, but most of it probably was what are known as non-qualified stock options. It turned out that the early high-tech firms could more easily, and simply, and with less restrictions on how they did it, create stock options that did not follow the typical pattern, where you exercise the option and you actually would have your profit reported as capital gains. For non-qualified stock options, the money came on a 1099 form. It was reported as wages and salaries, and it was taxed as ordinary income. Your Microsoft type, first generation of employees, paid a modest salary, and in addition, stock options. Their income actually showed up on the wages and salary line on their tax returns. It actually was taxed as ordinary income. Now, as those companies matured, that situation may well have changed. But at that time, what you had was income taxed at ordinary rates.

How do you go about trying to figure out ways so that hedge fund multimillionaires or billionaires pay more, and ordinary, well-compensated business people, who get ordinary income, pay relatively less? Actually, what we’ve done is we’ve gone in exactly the opposite direction—the so-called carried interest provision. We’ve taken those hedge fund operators and given them capital gain treatment on income that they receive at the end of the year, that arguably is a lot more like compensation for the work that they have done to manage the portfolio over the year. That is not a return on their own invested capital, but rather is their share of the income on money that they managed that belonged to somebody else. If one were to try right now to reverse that trend, probably the first thing that one would try to do is just to get rid of the carried interest provision. That, of course, is widely discussed. Hasn’t been done and is certainly controversial on Wall Street. You certainly do have people who see it as either a positive or a negative thing to do.

03-00:29:05
Meeker: Because it does seem that, again, in our conversations, there’s a certain kind of behavior that you can encourage or discourage through the tax code. It seems like entrepreneurship is something you want to encourage, and this sort of wild speculation and dealing in securities, and perhaps even ways in which securities are betting on the value of certain corporations or endeavors going down, is something that one might want to discourage in the tax code.
You can ask absolutely anyone who earns an income, is what you’re doing important to the economy? Absolutely everyone will say that the answer is yes. In the most meaningful sense, absolutely everyone is right. People do different things. The guy who gets on the bus early in the morning and goes and makes sure that the office building is clean—the guy or the woman—is doing something that is important to the economy. Those who believe that all work is sacred and everybody who puts his skills to work in the best possible way is contributing to society can’t frown on that. What people who work in the financial markets are supposed to be doing, from a—theory is too high-flown a word, but from the point of view of economics—is allocating capital to its better uses. Even the person who is in the business of looking for firms that he believes are overpriced, whose shares are overpriced, and selling them short, and thereby identifying them as firms in which people should not invest, and people should try to move their money into other firms, that provides a market signal which says where capital ought to go.

You have a lot of folks who take the perspective that, gee, this stuff you’re doing on Wall Street is easy. You just move money around, take a cut. Truth be told, and particularly if you’re talking about hedge funds—hedge funds have become a dirty word. Oftentimes, Jack Lew, who is now the director of OMB, worked for a while, in the Bush II years, at Citigroup in New York. When he was nominated as OMB director, you had people writing in blogs, he’s a hedge fund manager. Why should he be running the country? This, of course, coming from the far, hard over left. Truth be told, nothing to do with Citigroup is anything like a hedge fund. Of course, there have been books that have explained how it was that over the financial crisis, in fact, there were no hedge funds that went under. The point of a hedge fund is managing, to a high degree, its own money. If you take folks who work in those circumstances, if they make bad bets, they lose. Sure, you can point to individuals not in hedge funds—in particular, Wall Street institutions—who were hired in such circumstances that they could make stupid decisions and still make money. After the financial crisis, as you know, Wall Street has been downsized pretty significantly. I suspect that a lot of the terms that have been made available to employees have been revised so that things like that can’t happen. I’m sure they will in isolated circumstances.

One of the premises of the Tax Reform Act of 1986 was that what you want to do is to have your highest tax rate and your income tax be as high as it needs to be to raise the revenue that you need with the distributional result that you believe is acceptable, but that everybody’s income should be taxed the same. So the guy who goes out on the field in Yankee Stadium and hits homeruns, who might get multimillions a year, would be taxed at the same rate as the guy who goes to work on Wall Street every day, makes high-pressure decisions in a hedge fund, managing his own money and his partners’ money, and maybe some other people’s money, and as a result of that, earns an equal salary for himself. They’d both be taxed at the same rate, the philosophy underlying it
being nobody is sufficiently informed, short of the Almighty, to say that that
guy’s dollar is more important and better than that guy’s dollar. For that
matter, once you start down that road, in the course of writing the tax law, and
for that matter any other law in Washington, the next thing you know,
Washington is allocating resources in the economy, and Washington is not
good at that. That is not Washington’s native expertise.

Meeker: Has that not unraveled, though, after the last twenty years?

Minarik: Oh, I’m sure it has, by any reasonable definition. It’s not shocking that people
are looking around and saying, hey, we’ve gone too far. As a result, you have
discussion of income tax reform, and people say, let’s go back and redo 1986.
There are some kind of far-out right-wing ideologues who are saying that,
yeah, first you cut the ordinary income tax rate, then you increase the
exclusion for capital gains, and you make it up on volume, and the revenue
that you, quote, unquote, “lost” because of static scoring will all come back
because of rapid economic growth.

Meeker: The supply-side arguing that?

Minarik: Yeah, the same old Arthur Laffer nonsense, which some people still believe.
But you move fifteen degrees in from the extreme on the far right and you
find people who are talking about eliminating the preferences and reducing
the top-racket rates, with capital gains and dividends taxed as ordinary
income. Then you have that sentiment extending across the middle, off
reasonably far to the left, when you go further and you’ve got the people who
want to tax millionaires and give tax exclusions to people whom they think
are good. They go into allocating resources out of Washington in the way they
think is right. The question at this point is whether you can get enough of a
consensus across the middle that you actually do the kind of reform that we
had in 1986 over again.

Meeker: It sounds like, throughout the 1990s, when you were at the OMB, these kinds
of conversations about major tax reform on a level of 1986 were not
occurring.

Minarik: They really weren’t. I think I kind of have two regrets from the time I spent at
OMB, apart from, of course, the first year, when we were doing the deficit
reduction process, which was necessary at the time. You were going to get
that done however you could. One of them, which I always tell people, is I
never walked around the Old Executive Office Building and took photographs
of all the plaques in the rooms that tell you what historical events occurred
there. The other was that I didn’t spend more time trying to find allies in the
Treasury Department to push toward at least maintaining the 1986 tax reform, if not actually going into a tax reform mode again. The Treasury versus OMB political situation, even though it was a lot less odious in the Clinton administration than it had been in the previous administration—I may have told you, literally, people from OMB were under instructions from the director never to speak to anyone from the Treasury Department, and never to give them any information.

Meeker: This was in the H.W. Bush administration?

Minarik: Yes. Darman versus Brady. Famous Supreme Court case. In fact, there was a lot of confusion in the early days, in working on the 1993 Budget Reconciliation bill—the president’s budget—when people at OMB were told to share information with people at the Treasury. The first reaction was, is this a trap? Are you trying to get me fired? What’s going on? It had to be explained that we’re under new management now. People are talking to one another. But even so, and I think we discussed this last time, there were some testy moments early on. I really never got to the point where I felt comfortable trying to take that agenda and suggest it. We got into a different mode, which I think, in retrospect, was significantly ill-advised.

You mentioned coming into the White House after eight years out of control, and lots of people having lots of ideas of things they wanted to do. Well, you have an idea. Let me just pick one example. Probably there are several more. Helping families to pay for higher education for their children. We have a program on the spending side to do that, Pell Grants. We have tax credits and a tax deduction on the tax side. The tax deduction, and I believe one of the tax credits as well, were enacted during the Clinton years, on top of a preexisting tax credit. The impetus for doing that was, premise one: we wanted to do something to help families pay for higher education. Premise two: if we create a spending program, it will increase outlays and make the government look bigger. Premise three: but if we do it with a tax credit, it will reduce tax revenues, make the government look no bigger than it is already, and we can say that we’re for a tax cut. So, conclusion: we’re doing the tax cut. You wound up with what I think every tax expert would say is just a morass of competing provisions, and you can only take one. One reason why people buy Turbo Tax is because you put your circumstances in there and it tells you which tax credit or deduction you should choose to help to offset the cost of your children’s tuition. Arguably, that’s not good public policy, but that was the mindset in the administration at that time. You’ve already done the overall budget fix, and by the time you’re into 1996, 1997, the budget is looking better than you ever imagined it would. We tried health care. That doesn’t work. We’re going to do little things, like giving an additional tax benefit for families who are paying college tuition. If we’re going to do that, we’re going to do it on the tax side rather than on the spending side.
I should have added one more factor in that calculus, which is always mentioned in this regard, and it is meaningful. Typically, you pass a tax provision and it goes into permanent law. If you are instead creating a discretionary program, it has to be appropriated every year. That means you’re subject to review. Two years from now, somebody might zero it out. You don’t want to do that. You want to do the tax law and get your baby into permanent law.

Meeker: I should probably move ahead to the next, maybe, what might be considered the major chapter in this budgetary issue, which would be the 1995 showdown and shutdown of government. I just imagine, from an economist working at OMB—I don’t know the degree to which you were involved in the behind-the-scenes negotiations, but it seems to me like it would have been a rather confusing period of time. This is after the ’94 elections. Enter Dick Morris in the political sphere. Democrats who are definitely on the outs in Congress. You have this quite ideological group of Republicans, particularly in the House, and maybe even a chastened group of Republican senators, Dole and Domenici, in the Senate, trying to figure out where they stand vis-à-vis these new youngsters who have taken over in the House. How did you experience that from the vantage point of the OMB?

Minarik: I was not involved in some of the most important things going on. I was never a fly on the wall with any kind of a Republican discussion. That would have been fascinating. If such discussions actually took place. I’m not sure they did. Those things may have just worked themselves out. In the earliest times after the election, I believe there was a real sense of being beaten around the head and shoulders within the White House. It wasn’t very long before the president, apparently, was filled with a considerable additional resolve. There was a meeting in the cabinet room, which I did not attend, but I was told about it by some people who did, where, essentially, Newt Gingrich and Dick Armey told the president how it was going to be. The president looked them right in the eye and said, “That is not going to happen until you’re sitting in this seat. It will not happen while I am sitting in this chair.” So the answer is no.

Meeker: So the substance of what Armey and Gingrich wanted was as specific as their Medicare cuts, or was it more their whole Contract with America?

Minarik: I believe it was more global and conceptual at that point.

Meeker: There is this sense that Gingrich had this impression that he was going to be the prime minister, whereas the president would be relegated to the field of foreign relations.
Yeah, and to the extent that it became clear that that would have to be the result of combat rather than a pronouncement in the Cabinet Room. Reality set in very slowly for those guys, as you well know just looking at the history. Gingrich was very frank early on, talking about how they were going to shut down the government. The American people wouldn’t even notice, except they’d be grateful that government was being downsized. The president would capitulate because he wouldn’t have the nerve and he wouldn’t want to see the government shut down. They were very arrogant about it. The president just stood up to them, faced them down. Before too long, they were looking at a way to exit themselves from the situation. I was involved in some of those things later on, once you started actually having substantive discussions.

Meeker: During the shutdowns?

Minarik: Yeah. I was outside of the Oval Office, but just down the hall, waiting for a meeting to come to a conclusion, when the Republicans clearly had decided that they needed to set conditions such that the president could meet those conditions and they could agree to end the first shutdown and say that they had won. Although it was widely perceived that they had lost, and then they went into a second round of shutdowns, and the president continued to hold his ground. Of course, he had the debt limit issue running in the background, depending on which side you’re looking from.

Meeker: How did this then impact the work that you were asked to do at the OMB? These negotiations are going on, and there’s constantly a lot of shifting terrain, particularly from Republicans about what it is that they think is going to be acceptable to them. You, as basically chief economist at OMB, are going to have to deal with these in some fashion.

Minarik: Yeah. I was kind of back into the mode that I was in at the very beginning of 1993, which is to say, in the meetings and discussing what the policy options should be, but then taking decisions from the meetings, tentative decisions, ideas, whatever, going back, hooking them in the computer, finding out what the budget outcomes would be, and then going back into session. A large part of what we were doing in 1995, early 1996, was trying to determine what policies we could accept and advocate, with some degree of enthusiasm, to improve the budget situation without doing what the Republicans wanted to do in terms of substantial reductions in Medicare, which we believed would not be sustainable without the big tax cuts that they were enacting and so forth. Basically, their vision was, the way you get rid of a deficit is, first, you cut taxes and make it bigger, and then you assume that you can cut spending in various different areas, in various unspecified ways, to hit the target. We were, I think realistically speaking and fairly speaking, more realistic in the
numbers that we were looking at. We weren’t carrying the baggage of the big
tax cuts, but we had other policies that we would put in place. We got into
arguments over, well, if you’re going to balance the budget, are you going to
balance the budget in five years, are you going to balance the budget in seven
years? Are you going to use CBO assumptions? Are you going to use OMB
assumptions?

I had one amusing situation during this time. At this point, of course, Alice
Rivlin was the budget director. Alice and I, as I think we may have discussed
earlier, went back to 1973. We knew each other very well. Tended to agree on
most things. Every now and then, we’d have a difference of opinion. At this
point, I wanted to give the president a sense of what he would have to do in
policy terms to match the Republicans for balancing the budget in five years
using CBO assumptions. What would happen if, instead of CBO assumptions,
used OMB assumptions. What would happen if you extended it to six years.
What would happen if you extended it to seven years. That’s a lot of numbers
and it’s multiple dimensions. What I wound up doing was, in essence, creating
a three-dimensional spreadsheet, and then smashing it down to two
dimensions and putting it on a piece of paper. It had different numbers of
years to balance the budget, the different economic assumptions. But what it
did was it showed you, over the first five years, how much you had to save if
you were ultimately going to hit your target in either five years or six years or
seven years. It had all those dimensions to it.

I showed it to Alice and told her that we should show this to the president so
that he’d have a better sense of how the numbers fall under these different
assumptions. Alice’s reaction was, oh, this is much too complicated. We can’t
give this to the president. I said I thought he’d get it. We were at loggerheads
over this for some time. Then, finally, we got to the point where Alice said,
“Okay, we’ll do this. I’ll give in. We’ll show this to the president. But what
we’re going to do is we’re going to stage the meeting in such a way so that
before he starts going into this table, I’m going to have a chance to explain to
him what it is so that he’ll pick it up.”

The meeting was in the Oval Office. We got there early and the papers were
out on all the chairs, including the president’s chair in front of the fireplace.
The president walked in as we were ready to get started. Alice started going
into her prologue, which was to build up to the point where she would start
explaining this table. The president held this paper and he looked at it. After a
couple seconds, he flipped to the second page. Alice kept talking with a little
bit of anxiety in her voice. He flipped it to the third page. He flipped it to the
fourth page. She got finished with her introduction and then she said, “Now,
Mr. President, I’ve got to explain this table on the first page to you, because
it’s very complicated.” The president interrupted. Said, “I got it.” Alice said,
“Well, Mr. President, this is really a very complicated table and I should take
some time”—he said, “I got it.” It became clear in the subsequent discussion
he figured it out right away. He didn’t miss a thing.
What you had done? He got the three-dimensional—

Yeah. The three-dimensional spreadsheet, yeah. He had it. Very smart guy. Actually, he then went out into the Rose Garden. There was a press conference after this meeting. He said something on the order of, “I understand that we can balance the budget in five years, or six years, or seven years. I now understand it better than I ever did.” It was kind of neat. The Republicans, of course, took the president’s remark to mean, the president says we can balance the budget in five years, so we’re going to do it. The fight went on along those lines.

You see a lot of this battle between the White House and Congress as five versus seven years. In hindsight, that doesn’t seem like that big of a deal, particularly when the additional two years could buy greater solvency in Medicare, or at least prevent substantial cuts in an entitlement that is considered a third-rail in American politics. I can’t ask you to explain what were the Republicans thinking, but what was the wisdom in the White House at the time about their goal of five years versus a goal of seven years that could actually go without the substantial cuts they were seeking?

Well, actually, I think they said what they were thinking. They were actually very clear. This is back to the days of Newt Gingrich and Medicare, “wither on the vine.” Truth be told, yeah, Medicare is an important program to the American people. The elderly tend to be instinctively attached to it and protective of it. If you go back to that time, truth be told, the difference between five years and seven years, and the economic assumptions in addition, was if you wanted to balance the budget under the more rigorous CBO assumptions in five years, you would have to cut Medicare more, and they wanted to. If you were going to give yourself a longer period of time, six years or seven years, and use the more optimistic OMB assumptions, then you did not have to cut Medicare as much.

A substantial part of the president’s message, and he said this explicitly in private, and I’m quite sure that you could parse it very easily from what he said in public, was, they want to balance the budget, we want to balance the budget, but we can balance the budget without doing all these terrible things that they want to do. So at that point, you started having the manta, Medicare, Medicaid, energy, and the environment. The things that the Clinton administration wanted to protect and that the House Republican leadership wanted to undermine in one measure or another. That fight wound up taking place on the battleground of how you balance the budget, and over what period of time, and under what budgetary assumptions. Now, of course, this is in 1995 and 1996, and we’re talking about balancing the budget in five years, or seven years, and of course it actually was balanced in 1998. Some of us
were a little bit more optimistic about that than others. Even I, at that point, would not have said 1998.

Meeker: Your optimism would have been, what, maybe three or four years?

Minarik: Well, let’s put it this way. By the time we got into 1997, I started placing bets with my OMB colleagues over whether the budget would be balanced in 1998. I won a lot of beer.

Meeker: Really? By ’97, you were pretty clear that it was going to happen?

Minarik: Oh, yeah. Oh, yeah.

Meeker: Let’s move ahead to that, but I’m actually interested in your thoughts on the 1996 general election.

Minarik: I don’t consider myself to be a very good political seer. I had some colleagues who, the minute they were talking about Clinton versus Dole race, said it was all over. I remember somebody pointed out to me a bumper sticker that was actually on sale on Fifteenth Street. Right across the street from the Treasury, there’s a political memorabilia shop there. “Dole is 96.” Actually, I did come to a moment myself. My wife and I were watching one of the debates. It took place in California. A question was asked, and Senator Dole was answering first, and then President Clinton would answer second. Whatever the question was—I can’t remember exactly what it was—it raised the issue of how is the economy doing. Senator Dole started talking about how bad things were in California. He ended. The moderator called on President Clinton, and the first words out of President Clinton’s mouth were, “If you believe that the economy of California today is worse than it was four years ago, vote for Bob Dole.” I turned to my wife and I said, “We just won the election.” They had their three-by-five cards, but they did not represent reality. To me, that was really the key to what was going on. Frankly, we had a pretty good record by that point.

Meeker: Then you come into 1997, which is the year in which the balanced budget agreement is negotiated and passed. What role did you have in this? There’s actually been quite a bit published on it. I know that your boss at that point in
time would have been Franklin Raines, who was one of the major negotiators. Have you had a chance to read John Hilley’s book?

Minarik: I haven’t, no.

Meeker: Okay. One of the things that he argues in there is the success of ’97, in contrast to some of the failures of ’95, had to do with the delegation of negotiation. He claims that, in ’95, the negotiations were happening at a pretty high level. Gingrich, Clinton, etcetera. Whereas in ’97, it was sort of senior staff who were taking the lead on it. Cabinet secretaries. I guess when appropriations came in, Rubin would be in the room, and as director of OMB, Franklin Raines was there quite a bit. Do you have any thoughts? Were you in a position to observe the negotiations at all?

Minarik: I was. I wasn’t in every meeting. It seems to me that really the most fundamental difference was the fact that the economy had improved. You’re now at 2007, so balancing the budget in five years is 2012. In fact, the budget was already balanced anyway. But even given that people did not recognize that, at that point, launching from where you already were, which was so much stronger than where you had been in 1996 and 1996, it was just much easier to do it.

It was a little bit as though you had had a helicopter take you halfway up the mountain. The remaining climb was just not that hard. Did it make a difference that you had delegated to a lower level? It might have a little bit. Erskine Bowles was still the person in charge. In terms of what was going on in the room, the mentality of the Republicans, I think, obviously, was very different as well. In 1995 and 1996, they were trying to bring down Bill Clinton. Bill Clinton was now on Mount Olympus. You couldn’t bring him down anymore. He’s in his second term. The mindset in the room, the attitudes in the room, I think, were totally different from what I saw.

Meeker: What was your role in helping to craft that agreement?

Minarik: Mostly, in the early stages, again, trying to put the pieces together, look at what the big options were. If you did this, what did it do to what you had left to hit your target and so forth. I spent some time with Erskine, spent some time with Frank Raines. Was in some of the meetings that were held, and some of them were pretty crowded, so it was not the kind of thing where you necessarily had an awful lot of impact in the room. I remember one time getting an electronic page to join a discussion that was going on in the Oval Office with Dick Gephardt and Newt Gingrich and Bob Dole and Tom Daschle and the president and the vice president, and I think Frank was in
there at the time. It was a very kind of sitting on the sofa, bouncing things
back and forth, easygoing kind of thing. Not like the sessions in 1995, 1996,
where a little bit more like boxers in business suits circling each other and
trying to figure out if they can knock each other out. It was just a different
environment at that point.

Meeker: But there were still some key points of contention. From what I understand,
Gephardt was—maybe trying to undermine the agreement is going too far, but
he certainly voted against at least the tax component of it.

Minarik: Yeah, sure. I don’t recall what the roll calls were. Certainly, unlike 1990, you
didn’t have to go back and do it again. The best reflection on this, and it
would be interesting to see what John Hilley had to say about this point, and I
probably ought to look that up, because, in retrospect, I think you’d say it was
his fault. At the very last minute—it may have been Hilley and Kasich—asked
CBO to write a letter about what subsidiary benefits and lower interest rates
and reduced debt service costs would come from the enactment of a balanced
budget agreement. I think CBO’s response was something like $225 billion
over five years. Of course, the negotiators took that letter and immediately
took $225 billion worth of tough budget decisions and threw them over the
side. I was not in the discussions at that time, but I do recall I was in the office
with the assistant director at OMB, who’s kind of the head civil servant. His
guys do the final, totally error-free enrollment and calculation of what the
change in the package would be. We just sat there for half an hour. We were
trying to have a serious conversation. Every thirty seconds, we’d just start
laughing. It was just so funny to see this happen. You work so hard over all
this time to put all these budget savings together, and the next thing you know,
you finish it up with a party and you take $225 billion of hard decisions and
throw them away. Janet Yellen, who was the chair of the Council of
Economic Advisors at the time, I remember, was very upset, because one of
the changes that had been negotiated was using a chain-weighted, with
substitution, consumer price index to index social security and other benefits
going forward. That was one of the things that was thrown over the side.

Meeker: Interesting.

Minarik: Yes.

Meeker: Another thing that happens in mid-season negotiations is the mid-year,
unexpected CBO revisions on revenues. Did that impact the work that you
were doing at OMB?

Minarik: I’m trying to remember the timing. I believe it was—
Meeker: May, I think.

Minarik: Yeah. When new numbers came in, the targets, the necessary savings to balance the budget, were adjusted. That’s part of the process that I was just describing. If you go back to where you were in 1995 and 1996, it looked like you were climbing Mount Everest. By the time it was done, it was more like Mount Ever-Rest. It was just a lot easier. Then that final CBO letter kind of put the cherry on the sundae.

Meeker: So from your perspective, that actually made the process easier?

Minarik: Oh, yeah. Oh, yeah.

Meeker: There’s actually been quite a bit written about the ’97 agreement. People have sort of different opinions about what it signaled. Daniel Palazzolo, he wrote a book—what’s it called?—“Done Deal,” which was about the agreement. He concludes that it shifted budget priorities further in the Republican direction, because here you have approaching a surplus, increased revenues, and yet there’s still a pretty substantial tax cut component. Even though Clinton did get some things that he had been wanting for a while. But then there’s a more recent book that came out. Historian Iwan Morgan says that, well, actually, if you look at what the Republicans were seeking in 1995, 1997 shows that actually Clinton was able to reestablish his priorities, and that this doesn’t portend a particular Republican victory on this issue. Would you like to weigh in on that?

Minarik: I think the answer is really fairly simple. Did the Republicans get everything they wanted? Certainly not. Did the president get some things that he wanted? Yes. If the president had had a congressional majority at the time, would the final outcome have been more in the president’s direction than it actually was? That’s true, too. There was an element of compromise that the tax reductions in 1997 were a little hard to swallow. When you take into account that there was, at that time, a perceived sense that you needed to do something to put your stake in the ground, that you were balancing the budget—even though it was already balanced—that outcome, it seems to me, was quite reasonably hospitable to the president, taking into account that he had to get it through a Republican Congress.

Meeker: So it’s just evidence in order to compromise, and that it was necessary?

Minarik: Yeah. Glass is half-full, I would say.
Okay. One of the things that I wanted to ask you about, being the fact that you’re an economist, and also maybe based on the fact I was living in San Francisco at the time, and everyone I knew was working in dot coms—the sock puppet was a big deal. Actually, Alan Greenspan, in his memoir, writes quite a bit about it. I think it’s kind of interesting. He has this famous quote about irrational exuberance. In the book, he writes about the impact of the wealth effect. I’m wondering, from your perch at OMB, how did it look to you? Did it seem like there was an irrational exuberance? Does it seem like in the increase in revenues and in the apparently booming economy that there was the seeds of its own destruction in some ways? And if there was—just to push that a little bit further—is there a way in which those fears could have played into your work?

This is wisdom of hindsight. Actually, I could tell this story from either direction. Back then, I was arguing that the growth that we were having was solid, and the reason for that was that a substantial part of the growth was coming from business investment. If you looked at the numbers, investment in equipment, and also in business structures, was stronger over that eight-year period than it had been at any time since World War Two, in terms of consistent, sustained growth. What we were spending money on, in my perspective at the time, was stuff that was going to produce output in the future. Would continue to make us wealthier. That being the case, one could reasonably argue at that time that, in fact, we were not heading to our own destruction, and instead we were building a sound future. In retrospect, while all of that was true, there was the beginning of the subsequent boom in housing. Housing, of course, does produce output, but the output is residential services. In that sense, the output is more sterile than the output from business equipment.

If you go back to 2000, 2001, at the end of 2000, the economy was softening, and we were concerned at the time that there might be a downturn coming. However, and I think Bob Rubin has made this case well in his book, if instead of doing the permanent tax cuts that we enacted in 2001, we had instead used temporary tax cuts and other means to get the economy to recover, we would not be in the budget deficit hole that we’re in today. The budget decisions of 2001 were the most colossal fiscal errors, possibly, in the history of the United States. Absolutely, totally, one hundred and eighty degrees wrong. But of course, subsequent to that time, this housing bubble continued to expand. A lot of it, in my judgment, it seems to me that the primary cause of the problem was actually right down to the mortgage broker and the bank—his desk. Writing loans that people could not service. These are written over a period of time on the assumption that the value of the house would go up enough that the individual would be able to refinance, interest rates would remain low. It seems to me it was the responsibility of the lenders to understand that they were writing questionable paper. A lot of typical
Americans would sit on the other side of that desk and hear the story about how all this will work out in the end. Don’t worry about when the mortgage resets up. You can just refinance. A lot of people do not have the financial sophistication to be able to listen to that and say, that sounds too risky to me. Either I want a thirty-year fixed mortgage, or if I can’t get a thirty-year fixed mortgage for this house because it’s too expensive, I’m going to have to look at a cheaper house.

Meeker: Or continue to rent.

Minarik: Or continue to rent. Personally, I do think homeownership is a good thing if people are making commitments that they have a reasonable prospect of being able to fulfill. At that time, I was actually quite confident about the economy. Probably excessively so. But there is one aspect of the policy that the president articulated which is important to keep in mind. I think this was extremely important at the time, and the absence of it after the election in 2000 was really crucial. In those last couple of years, the budget was balanced, we had a surplus, and it was getting bigger. The question was, well, if you let this Republican Congress loose with this mad money, lord knows what they’re going to do. For sure, there are going to be big tax cuts, but they might be very well far larger than they should be, and they’ll spend money on other things. What do you do to maintain a responsible budget policy in this environment? I was in the room, and I wish I could remember it more clearly, but I believe it was actually Larry Summers, if I’m not mistaken, who came up with the catchphrase, “Save social security first.” That turned out to be an absolutely insuperable barrier to the Republicans—to take money in violation of the pay-as-you-go requirement and do the tax cuts that they wanted to do. Part of whenever I was either speaking in public about it or preparing Frank Raines or Jack Lew later to go out and speak about it, I would always put in a tag that would say, even if these surpluses do not materialize, if we follow this strategy, we know that we will remain in a good place with respect to the budget. This is a good strategy if the surpluses in fact continue. It’s a good strategy if they don’t continue. This is a no-lose position that the president is taking with respect to our policy for the budget. Of course, once you started getting into the world of, I’m an American taxpayer and I’ve been paying too much and I’m here for a refund, that just totally turned around a hundred and eighty degrees.

Meeker: We should probably wrap up. I’ve got some more questions, and I know that you worked quite a bit in Congress in the 2000s. Maybe I just want to get you to continue telling the story, but not from the vantage point of being in the White House during the period of surplus, but being back on Capitol Hill, working for the minority party this time, during the period that the surpluses were quickly disappearing in the face of two pretty monumental tax cuts.
First, maybe you can describe briefly your role once you returned to Capitol Hill.

I was the policy director for the House Budget Committee, working for John Spratt, whom I had gotten to know when I was working for Leon Panetta back in the early 1990s. John is a moderate Democrat. Was the representative from a quite conservative district in South Carolina. People said at the time that if anything happened to him, there was no way the Democrats could have continued to hold that district. Which has proven to be true, although even John lost reelection last year. John’s position was exactly what mine would have been, which is to say, you’ve inherited a budget surplus, don’t blow it. There are a couple of, to me, key points to make, or key experiences from that time that I think give a little bit of a sense of it. One was, when Alan Greenspan came up to Capitol Hill, he testified first before the House Budget Committee, then went to the Senate Budget Committee with the same prepared testimony. His argument was that the budget surpluses that are projected now are so large and so certain that we absolutely have got to get rid of them before they put the federal government in a position of buying up private securities in the open market, because we already paid off the entire federal debt. He portrayed this as an urgent need. The key sentence in his testimony said that it is “none to soon”—T-O. He made a grammatical error. “It is none to soon to begin reducing the surpluses now.” Of course, turning out to be a hundred and eighty degrees wrong. He’s very good at making interest rate policy for the Federal Reserve. He should have stuck to it.

This is not exactly the way that he presents his position in his memoir.

Yeah. It’s in black-and-white. He can dissemble all he wants.

He claims that he was—in his memoir—supportive of the trigger mechanism.

Oh, sure. Oh, sure. That was going to happen, no problem.

It sounds like you’re not convinced—

Everybody knew that once they passed those tax cuts, and now we’re talking about ten-year horizons, you build those tax cuts into people’s expectations over a ten-year period, and in particular, they take those tax cuts and use those tax cuts to either make small down payments or cover the future payments that they’re going to have to make on new cars and new houses. You can’t take them away. That was never going to happen. Of course, the people who were pushing that policy started out with the tax cuts for people with very
high incomes, and then, to make that palatable, spread the tax cuts down the
income scale so that you could get to people who would provide cover later on
when you said, oh, you can’t repeal these. There was also, to me, a really
terrible offense against the budget act, where you had the reconciliation
process, which was supposed to enable you to get painful things through the
Senate with just fifty or fifty-one votes rather than sixty under a filibuster.
Then you turn that around and you set up a situation where you can buy candy
with fifty or fifty-one votes. That was, to me, just grossly irresponsible. There
were people here in town who painted themselves as budget experts, who
endorsed that. It was revolting. You get to the point where you’re going into
the Senate and everybody knows that you can’t possibly offend enough
senators to fail to get fifty votes. All you needed was fifty, because Dick
Cheney would vote for the Republican position. So at that point, you had
Democrats going along because they didn’t want to be opposed to a tax cut.

04-00:28:05
Meeker: It was going to pass anyway, so—

04-00:28:07
Minarik: Yeah. Oh, yeah. At the end of the day, they got more than sixty votes. If they
had needed sixty, they would not have gotten sixty for the same package,
because there would have been Democrats who would have said, we can stop
this. So what then happened was that you wound up with a tax cut that was
much larger than you possibly could have gotten through under the regular
order rather than under reconciliation. I would go so far as to say that, without
that desecration of the reconciliation process, if they had needed sixty votes,
the tax cuts would have been much more affordable than what they actually
got. At least once, and at least obliquely, there was a senator in the
Democratic leadership who took the position on the floor of the Senate, don’t
worry about these tax cuts. They can’t possibly cause a deficit problem,
because if they do, we’ll just let them expire. You knew that wasn’t going to
happen. They had all the cover they needed. They had Alan Greenspan. They
had the use of the reconciliation process. Oh, they’re temporary, so if anything
goes wrong, we just let them go away. Which flew in the face of reality.

The one thing that I would want to put into this conversation before we
finish—the budget resolution in the House, which enabled the use of the
reconciliation process to pass the tax cuts, came up at seven o’clock on a
Saturday morning, very early in the year. It was done on the weekend so that
it would be under the radar. I was sufficiently offended by the whole thing
that I literally slept in my office. I had a little trick that I used to have C-SPAN
wake me up if a bill was coming to the floor after a layover over night. So I
was on the House floor for the debate on the budget resolution. John Spratt
spoke. John, in addition to being an extremely principled person, and an
extremely bright person, he’s also an extremely humble person. I once heard
him tell a group of his constituents—I was in the room—he said he felt like
Joe Minarik’s ventriloquist dummy, which is the most absurd thing you could
ever imagine, because he didn’t need anybody to tell him what to say. On this particular occasion, he got up. I have, saved on my computer—and I try to keep a copy of it in the portfolio I carry around with me—the first paragraph of his remarks, which were totally off-the-cuff, on this issue. He started out by saying that we had this projected $5.2 trillion ten-year budget surpluses. “I hope it materializes. If it does, it will be a blessing for all of us. But if anything goes wrong”—I forget exactly what his words were—“But if anything goes wrong, this surplus will vanish in the blink of an economist’s eye.” You can’t imagine anything more prescient. I think the wisest words that were spoken on the floor of the House at that time. It’s just a tragedy that people didn’t hear it.

04-00:32:02
Meeker: Well, it disappeared as quickly as it appeared.

04-00:32:05
Minarik: Sure did. Sure did. Didn’t have to, but it did.

04-00:32:08
Meeker: Well, we should let you go to your meeting. Do you have any final words or anything that you’d like to add, maybe in general, considering the current situation or just the deficit as an issue?

04-00:32:23
Minarik: It’s amazing that we continue making the same mistakes. The supply-side ideology is still there. What I think is different right now, and is very dangerous, is the fact that you have a very polarized membership in the Congress, where you have a bunch of people on the one extreme who are willing to let the deficit and the debt increase without limit to protect entitlement programs. You have people on the other side who, under no circumstances, will accept the tax increase. You have some people in the middle, but not enough, who themselves are spinning their wheels, trying to get traction. We’re now on the brink of a potential debt limit crisis, the consequences of which could be truly catastrophic. Very few people seem to care enough to want to solve this problem in a way that does not yield their political party with a victory. We are in the stage now where there is no way that this problem is going to be solved with a political victory earned on either side. The first thing that people have got to do is throw away their political expectations and save our economy. Until they do that, we’re in the soup.

[End of Interview]