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This is Patrick Sharma here with Dr. June O'Neill on March 1. Tape one. Dr. O'Neill, thanks again for joining us. I'd like to start this oral history by asking about your own personal background, and then your intellectual background. How did you become interested in economics and public policy issues?

It's actually happenstance. Early in my life, I wanted to be a concert pianist. I'd studied the piano. I went to the Bronx High School of Science for academic reasons, because it was a very good school. Then when it came time to go to college, I wanted to go someplace where I would have an opportunity to pursue music in addition to other things. Actually, having gone to the Bronx High School of Science, I'd already gone through calculus and math. I knew a lot of science/math stuff. I went to Sarah Lawrence, where the piano, I could take as a subject. I won't go into how Sarah Lawrence is organized, but there's a great deal of freedom into how you organize your coursework. So I continued with music and did mostly arts. There was no math offered at Sarah Lawrence that was beyond what I had done in high school. They said, you could take math at Vassar, but that meant a long train ride, and I wasn't up to that. I didn't continue math/science. It was kind of an economics-like course that I took, but it wasn't really serious economics. But music is where I was headed. When I graduated from Sarah Lawrence, I went to Juilliard. I was married early—while I was still in college, actually—and had a child. I studied with a wonderful teacher at Juilliard, Eduard Steuermann.

I was divorced, actually. I had to sort of think, what do I want to do with myself? I was still pretty young. I thought, well, I'm not Horowitz. I'm not Rubinstein. I'm not nearly in that class. Being a sort of second- or third-rate pianist, I would probably just be traveling about and playing in colleges, small halls. Giving piano lessons, which I didn't really want to do. I said, what else can I do? I knew somebody who had gone to the Bronx High School of Science a number of years before me, who was teaching at Columbia. Somehow, I had the idea that it would be glamorous to be in international business. There had been the Bretton Woods Conference, and that stuck in my mind as something that was engaging. So I went to see Peter Kennon and said, "Should I go to the school of international affairs? Shall I go to the business school? What should I do? What would you advise?" So he said, "Well, if you go to the school of international affairs, you'll know a little of this and a little of that, but you really won't be trained for anything." And then he said, "Why not start in economics?" I said, "Okay." [laughter] Never having had a serious course in economics, I went to the graduate school at Columbia. I probably wouldn't get in now, not having had any economics background, but I did then. They did have a course for people with weak training that you could
take. It was sort of like a double course that would help you catch up. But the first year was really tough. I didn't know what anybody was talking about. By the end of the year, I caught on. I was lucky to have been at Columbia at that point, because Gary Becker, who's now at the University of Chicago, was teaching at Columbia—and Jacob Mincer. They were in the general area of labor economics, which encompasses a lot of things other than labor. I was really intrigued with labor economics and with economics in general. I really took to what I found. It was really intellectually challenging and opened up new windows to me, and so I continued and got my Ph.D. Gary Becker was my dissertation advisor. I was Jacob Mincer's research assistant one summer at the National Bureau of Economic Research. That was what I did. I married another student at Columbia, actually. He was a bit ahead of me, and he was our teaching assistant in statistics. It used to say, "See me" at the bottom of my homework. [laughter] Now you would not be allowed.

01-00:05:57
Sharma: Clever.

01-00:05:58
O'Neill: But anyway, we got married. I took his name, O'Neill. We moved to Philadelphia. He was teaching at the University of Pennsylvania. I still hadn't finished my dissertation, but I was at Temple. We were there for a few years. I finished my—well, no, actually I didn't while I was in Philadelphia.

01-00:06:37
Sharma: What was your dissertation on?

01-00:06:38
O'Neill: It was on the effect of education on interregional migration in the United States. It was a migration study. In those days, it was very difficult to do empirical work because there were no personal computers. You had to go to a computer center and type all your variables on cards, and then submit them overnight. I don't even know whether you got them the next day. Nor was there access to data. You didn't have data tapes. You had to use census data. Using a calculator, you would have to aggregate the data into the variables that you wanted to use. At any rate, I essentially finished with my dissertation. Dave went took a job in Washington at the Center for Naval Analyses. Because my dissertation was related to education, Brookings had a grant from the Carnegie Foundation to study various aspects of higher education. I did a study of resource use in higher education—productivity in higher education. Led to a paper that Brookings put out. I think it was my first published paper. It was in the National Bureau of Economic Research, the NBER, as it's usually referred. It was in a volume on productivity in higher education.

01-00:08:39
Sharma: Just for our purposes, can you briefly describe what your findings were?
The findings were that, for one thing, productivity in higher education is extremely difficult to measure because the tangible output would be something like student hours. Over time, that really doesn't change very much. In terms of the quality of the hours produced, I tried various ways, but there really wasn't any good way of measuring it. What the expenditures were was the tangible part that I could measure. I developed a measure of the value of the capital stock, translating it into a current cost, and the various aspects. One of the things was that expenditures had increased quite a lot as schools expanded actually beyond instruction, but added all kinds of things. Student life things. I think that was one of the major things. So it looked as though productivity, in terms of what was produced per dollar, would be going down, but there was this unmeasurable component of what was the value of the output. I don't remember totally very well what my results were, but it was something like that.

Herb Stein had been at Brookings when I was there. Nixon won the election. After he became President, he had a new staff of the Council of Economic Advisors. One of the staffers left, and so there was an opening. Herb asked Joe Pechman, who was the head of economics, was there anybody who could cover the sort of labor, health, education areas, and he recommended me. That was my first foray into some sort of policy analysis. That was a really fascinating experience, too, because the Nixon White House was a very interesting place to be. Everybody was excellent. It was really extremely interesting, not only because of the challenges of policy, but also learning something about how things work. The Council of Economic Advisors then, and I'm sure it does now, tries to be an independent voice to make recommendations, not to the public, but privately to the president, and in the economic report try and present material that would be important for the public to understand.

Let me just interrupt you briefly. So this was in 1971 you ended up at the CEA?

Right. And I stayed for a number of years.

Right, you stayed through the Ford years, until 1976. What were the major issues at the time as you remember them?

Initially, inflation. People were worrying about it. It wasn't that high in terms of what it later became, but that was a worry. Paul McCracken was the chairman, and I remember one of the first meetings that I went to, he gathered us around and said, "What can we do?" Nobody had any bright ideas. One person suggested—who then went on to become a professor at the University
of Chicago—no, I guess he was. He was on leave. He said, "Let the unemployment rate go to 10 percent and stay there until inflation comes down." That was sort of a forecast, because that was eventually what Volcker had to do. There was a group that was very much in favor of what was then called incomes policies, meaning that we should have some form of wage price controls so that we could expand the economy. Arthur Burns, who was the chairman of the Federal Reserve, totally changed his stripes. He had been the head of the NBER, and never would have proposed anything like that. But he did. I guess he really believed it, that he could pump up the money supply, and at the same time, they could put in wage price controls. Of course, at the Council, we fought it tooth and nail.

Privately, and in part, publicly. McCracken was openly against it. He asked me could I write something on wage controls. I remember it was the summer and I was at Rehoboth Beach, sitting on the beach, trying to write this article when a phone call came. McCracken said, "It's too late. They've already imposed phase one." We were all horrified and shocked, and knew that it would never work. Paul McCracken left. I don't know whether that was the reason that he left. I thought that must have been one of the reasons that he left, that he did not want to preside over wage price controls. Others stayed. Herb Stein, who was totally opposed, stayed. George Shultz—I can't remember whether he was at Treasury or OMB. He was somewhere around at the time. Maybe he was the head of the labor department. They were totally opposed. But then they said, well, if it's going to be done, better have us than have hacks come in and do it. So they did stay around. People were borrowed from here and there to work on the wage price board. A couple of people who were on the Council staff went in and worked a couple of hours a week there.

So this was something that proceeded independently of the Council?

No, the Council was not an official part of it. It was a separate board. They did employ economists. They knew that it was really ridiculous. It was creating shortages everywhere. One of the economists who was on the staff said, "No chlorine for the swimming pools this summer," because they had set the price too low. It was really crazy. There was no way to set prices and wages that could possibly work. It damped down inflation temporarily, but it couldn't last. I personally believe that that was really what killed growth and set the seventies on the wrong course, because it created so many distortions and so much business uncertainty. It was a really terrible move.
Sharma: So a more restrictive monetary policy at the time would have been a much more effective—

O'Neill: Yes. But Nixon, being extremely paranoid—he was very popular. He would have won the election anyway. Some people hated him, but in many ways, he was an extremely articulate person and he was an extremely smart person. Any time that I was ever at a briefing where he was present, he would understand, in a moment, the intricacies. He knew the details of what you were trying to tell him. He was very nice to staff. Every year, we would troop in for him to sign the economic report, and he would spend quite a lot of time chatting with everybody and having his picture taken with us. He gave us all little presents. He was very conscious about being generous to people, I think, and kindly, which, in person, he was. Really sort of a tragic man. Very intelligent person, but he had a fear that something would happen, and then Watergate totally did him in.

Sharma: The interesting thing is that he was so popular and he won reelection so overwhelmingly in 1972 that all this stuff was completely unnecessary.

O'Neill: It was unnecessary. Unfortunately, I think Arthur Burns, who was a respected economist, really played into his hands of this trick that they thought they could pull off, of pumping up the money supply and holding prices and wages.

Sharma: Was there any precedent for this? Were you and others looking at the World War II experience with controls?

O'Neill: Yeah, but it wasn't really a precedent. You had to have some kind of rationing during World War II. We were coming out of the thirties, when there had been no production. Milton Friedman worked on the wage price board, doing technical things, during World War II. I think that probably led to him being more against them. But people have confused it, thinking that he also recommended it, which is definitely not true. He was bitterly opposed to them when the time came around. I think a lot of people who had been affiliated with the NBER were horrified that Burns was one of the instigators of it and sort of gave it the cover.

Sharma: Was there a sense now, maybe not with the prescriptions for dealing with inflation, but understanding why inflation came? The diagnosis. That the inflation of the early seventies was a result of excess government spending? In retrospect, this is a story that's told. That inflation in the seventies was a result of spending on the Great Society and the Vietnam War.
It was probably a hangover from that and started then. There was that early recession in the seventies. The '71 recession, when unemployment did rise. Burns was, I think, originally doing the traditional things. He may have gone too far. Actually, I'm not an expert in monetary history at all, so I don't know to what extent the money supply was pumped up, but it must have been something like that. It was getting out of the recession of the early seventies that went too far. Instead of pulling back, they had this scheme. The only good thing about it is that no one will ever do it again, because it was horrendous. Once they took the lid off, the rest of the seventies was really rocky. Then, eventually, there was this really wild inflation in the attempt to do something about the '74, '75 recession that went too far, with spending and a very large increase of the money supply. That much I know. And then inflation just spins out of control. That's one of the things you may think, as the head of the Fed, that you can say, stop, and it will stop, but it doesn't. Once it gets going, it's very hard to stop, as they found out.

Yeah, it takes a prolonged period of—

Yeah. So eventually it took Volcker. Inflation was so palpably horrendous that I think mortgages were 21 percent rates.

And it took a while even then for inflation to come down.

It took a while. Carter, to his credit, did appoint Volcker, knowing, probably, what he was going to do. Maybe he didn't know exactly what would have happened next, but—

Right. This is something we've talked about with some of our interviewees, whether he knew. The consensus seems to be Volcker had already made his position clear.

Then when Reagan came in, he went along with it, knowing that there would be this period of really high unemployment, where it went even higher than this time. It was reaching 10.5 percent or 10.6 percent. The unemployment rate was very high.

Let me ask you a few more questions about your time at the CEA. One of the interesting things, and this probably doesn't touch on what you were doing specifically, but at least with regards to our project on the history of debt and deficits, is the 1974 Congressional Budget Act, which instituted a change in the budgetary process in Washington.
That's true.

Did that resonate in the White House at all?

No. I was aware that it happened, and I was aware that there was a new agency that would be the Congressional Budget Office. I knew Alice Rivlin a little bit. Actually, while I was at CEA, I did continue doing academic work because some of the things touched off interest in particular subjects. Oddly enough, one of the subjects that I had worked on over the years was the economics of things having to do with women—women and the economy. That was a funny story. The Ladies' Home Journal asked Nixon, because he had daughters, and I think he had sponsored the Equal Rights Amendment, Women's Rights Amendment or something, could he write an article on women and the economy for the Ladies' Home Journal. So he asked Herb Stein, who said, "Well, I don't know anything about it." Then he asked me, because I was a labor economist there, would I be interested in doing this. I said yes, I would be interested in doing it, and just looking at labor statistics generally. I was interested in the subject. Women's labor force participation was beginning to pick up. So I wrote this article. It was sort of ghost written for Richard Nixon, I guess. [laughter]

That was probably read by more people than any academic study.

But then Herb Stein, who was the OECD representative for the economy, had noticed that he thought that the situation for women was not so hot in the United States. Maybe it was better in other countries, but it would be interesting to find out. So he suggested to the OECD that they start a working party on women. I became the U.S. representative to that. We wrote a report comparing the situation of women in the economy in all of the countries that had enough data to participate. That was extremely interesting. As a result, I got more and more into the subject of studying what is the source of the difference in wages between women and men, why are women increasing in the labor force, what caused the big change? Actually, back in Columbia, Jacob Mincer was very interested, and he had written a famous article on the labor force participation in married women. The work that I did for him over the summer was related to it. I forgot. I actually had already a background in the subject. It wasn't cold.

I'll crudely categorize your findings—that the wage gap was inflated. The common understanding is that women earn less pay for an equal job, but your research found that—
They weren't in the same jobs. A big thing was that when women's labor force participation began to increase, as it did—it started in the late sixties and in the seventies—the women who were entering the labor force were women whose children had grown, and most of them had not worked very much in the past. They were suddenly in the labor force, and obviously could not be earning as much as men of the same age. The big difference is the work experience, as well as the various accommodations that women have to make when they do work, if they have children. Not all women. There are some women who are work fanatics and would view a job the same way as a man would, but not so many. So women are much more likely to work part-time. A very significant percentage of women, 25-30 percent, work part-time, especially when children are young. It's during the time in life when you're in your twenties and thirties, when you have young children, that men are—it's just the opposite. Married men actually work more when they have children. It's the time you stay unavailable--a lot of these things, that the hours that women spend with children, are really very significant. A woman working fulltime will spend more hours than men spend in primary childcare then come home from work. You'll try and find a job that can accommodate what you consider your responsibilities at home or what you really want to do at home.

Would you say that this put you at odds with mainstream economists? How would you position yourself?

For a long time, that was true, but I think that more and more people have come around. Claudia Goldin, a very prominent economist who's at Harvard, also did work on women, with similar conclusions. Actually, she and Larry Katz did a fascinating study of graduates of Harvard over different cohorts of graduates, comparing the men and the women. Even though women graduates have gone on, and recently, to be doctors, lawyers, they still don't earn as much as men, but they're in different situations. Although some of the women are in finance, or they're physicians who earn quite a lot—they might be earning a million dollars a year—but the men are earning twenty million dollars a year, so there's even a huger gap at that. Actually, they went into a lot of details that explain differences in the actual courses that they took at Harvard. The men did better in the finance courses than the women. They went into a lot of reasons, but it's impossible ever to explain it all because there are a lot of characteristics of workers that you don't know about just from looking at the page. The data. I think it's become more accepted.

Would you say the same thing for your work on welfare? At the same time that you were producing studies on the so-called wage gap, you were working on the unintended effects of welfare.
O'Neill: Yes. I was a strong proponent of welfare reform, of the kind that actually occurred eventually in 1995, 1996. After the Council, I went to CBO. Actually, at the Council I had done work on Social Security. That was one of the fields. I did things in areas that were related. That was one of them. That was very early. It must have been '75 when I actually went there, or '76, when I went to CBO. CBO was still—

Sharma: Just a baby, yeah.

O'Neill: Yeah. It didn't have normal offices. It's still in the same building, but it was the FBI warehouse, but then it looked like the FBI warehouse. There were just filing cabinets all over the place.

Sharma: I think the first office was in a hotel room or something.

O'Neill: No, I wasn't in that. They'd already moved into the FBI warehouse. No air conditioning. It was much smaller, and I was in the budget estimates part of CBO.

Sharma: How did you end up over at CBO?

O'Neill: Alice knew me. They were looking for somebody to head the unit that encompassed then health, labor, education, Social Security, veterans.

Sharma: All the small stuff. [laughter]

O'Neill: It had Medicare, Medicaid. That was one unit. There were maybe three analysts to do it all, and they needed someone to head the unit. I thought it would really be interesting to do that, so I went to CBO and I was there for three years. But it was a very different place. The staff was very thin. I think we might have added a person or two. The other thing was that the budget committees had always gone to OMB for their estimates, or to the budget offices of the different agencies. So they said, CBO? I don't know these people. They were very reluctant to use CBO as the source of an estimate.

Sharma: Did that change over the course of your initial period at the CBO?

O'Neill: It did. I think by '79, they were basically using our estimates. It wasn't immediately established.
Sharma: I see. How do you account for that success?

O'Neill: In part that they were required by law, really, to get an estimate from CBO. Any time a bill came out of committee, they had to go to CBO. Eventually, CBO had to put an estimate on, so they started going to us first instead of last. I think that was one of the ways that that happened. CBO was not doing that much. They didn't have very many people to do so-called studies. Now the studies units are very large and employ a lot of people. They needed something done on Social Security, because Social Security ran into the over-indexing problem and they had to fix it. The choice was wage indexing versus price indexing. I wrote the CBO paper comparing wage indexing and price indexing. It would be like a study paper today.

Sharma: This is, I think, in '78 or something. Around then.

O'Neill: Yeah.

Sharma: And there was a modest payroll tax increase around that time.

O'Neill: No. They had done that, but Social Security—the benefit was out of control because of the over-indexing. That's too long a story to go into.

Sharma: When inflation is running that high, too.

O'Neill: Oh. What happened was in 1970, Wilbur Mills was the chair of the House Ways and Means Committee, and he was running for president. Social Security was not indexed for anything. Every year, Congress would vote on the amount of benefit increase they wanted to give. With the idea of running for president, he said, I will bestow benefits on Social Security recipients. So he put in a new indexing scheme. When OMB did the estimate, they neglected to consider what if inflation rose beyond the very low level that it was at the moment. It spun out of control because what this new scheme did was to increase the percent by the rate of inflation. It was like a machine, ginning up higher and higher benefits to people who were just retiring. The benefit, for the ones who were already retired, was just plain indexing. Of course, that went up, just with the index. But the ones coming up for retirement, it was an exponential effect.

Sharma: Right. Because their initial level of pension benefit—
O'Neill: The beginning benefit got higher and higher and higher.

Sharma: I see. What was it that you did, and how did things change?

O'Neill: There are two ways of doing it. They're still thinking about it now. The one that got chosen was wage indexing. The other one would have been price indexing, which is now one of the ways of trying to control Social Security, or at least partial price indexing. Price indexing means that if, in real terms, you earned $75,000 over your lifetime, the benefit—and the benefit was $1,200 a month, or $1,300 a month—that relationship would remain under price indexing. The indexing would just correct for normal inflation, but not for wage increases, which are usually higher than price increases. It did lead to continuing increases in the initial, if you do it in real terms. And it's still an argument. The Greenspan Commission in '83 didn't do anything with the indexing. They raised the age of retirement, which is a way of reducing the benefit below what it would have otherwise been. And they raised taxes, but of course the taxes aren't really saved anywhere.

Sharma: Right. In and out. What other issues do you remember from your initial period of time at the CBO?

O'Neill: There were all kinds of issues. Everything. Medicare was, even then, always an issue, because Medicare is really run by Congress. They decide what benefits should be there. There were always people trying to lobby and get new benefits put in, which is how Medicare grows. Cover this, cover that. Actually, when I was CBO director, the chiropractors used to call me every year, as though I could have anything at all to do with it, to try and get them to include chiropractors to be covered by Medicare. [laughter]

Sharma: That's interesting. That's a constituency I didn't think would be calling CBO directors. Interesting. What did you do after? How long were you at CBO for the initial—

O'Neill: I was there for three years. The nitty-gritty of the budget was totally absorbing at that particular job. I didn't have much time to do any other research work. Then the Urban Institute asked me to direct a unit that they had that would have covered welfare, women, various labor stuff. So I went to the Urban Institute. When I was there, I did studies on welfare, what determines the duration of welfare, and various things.

Sharma: I want to get to your ascension to the CBO directorship in just a moment, but if we could just dwell a little bit on your thinking during the 1980s. What did
you think about Reagan's economic policy, both in the grand scheme of things but also with regards to the specific labor issues that you were just talking about?

01-00:41:24
O'Neill: Actually, the Reagan policies had very little to do with labor issues. Obviously, Reagan was with the controllers. It put a negative spin on unions, but I think the economy was just pushing in that direction anyway. As firms were changing their nature, there were fewer of the traditional old manufacturing firms. So in the private sector, there was very little unionization. But the public sector union became powerful. Oh, and I did get involved—this was while I was at the Urban Institute. I began looking at comparable worth. This had nothing to do with Reagan.

01-00:42:22
Sharma: Okay. Maybe you can indulge us and just explain what you—

01-00:42:27
O'Neill: The issue of comparable worth had come up. Women's groups were saying, the problem is that women are in women's jobs, and that women's jobs are underpaid. Which I thought was—it's hard to have discrimination against an occupation. I did some academic work on comparable worth. Oh, I did a study of the determinants of occupation. Why women are in certain occupations and men are in other kinds of occupations. That led to my writing stuff. I was able to say something sensible about what was wrong with comparable worth. I began to be somebody that, when there were debates about comparable worth, would be on the anti-side. Women's groups were proponents of comparable worth. There are a couple of women economists who were in favor of it, Barbara Bergmann being one of the major ones. There was a big court case involving AFSCME, the public union. It was in the state of Washington. They sued the government because they said that pay in the state government of Washington was set based on market rates. They used to do a survey. They would look in neighboring states to see what was the pay in the various occupations that they employed, and they used those to develop the pay scales in the government. They said the market is biased, therefore, the wage scale is biased, and therefore we have occupations like nurse being paid less than occupations like electrician. At the time, it was in the news all the time. The attorney general asked me if I would testify in that court case. I did go to the judge in that case, the lower court judge, who was extremely biased. Eleanor Holmes Norton was there. She's not an economist, but she was arguing in favor of the comparable worth. When it came my turn to testify, wouldn't let me testify. He said, "I don't need to hear from her. I've already heard from Eleanor Holmes Norton. I know all I have to know." That was a fatal error. I think his staff then said, "You cannot do that," so they did bring me back to testify on damages, so I was able to get my testimony into the trial record. Eventually, it went to the Ninth Circuit. It was overturned. Kennedy was the main judge overturning it. He said something like, the market is not a suspicious agent, or the market is not an evil agent. Some kind of words to
that effect. It more or less killed comparable worth. Then lo and behold, the wage gap between women and men narrowed for reasons that women were marrying later or having children later, working longer in the labor force, and especially getting schooling that would enable them to do occupations that had a higher pay. So the wage gap all by itself began to narrow. I remember I ran into Barbara Bergmann once, when the gap had really narrowed quite a bit. It was in the early nineties, after the Berlin Wall. She said, "Now I know how the CIA felt when the Soviet Union crumbled," because she invested so much. It was a joke. She was a very clever woman. She is. She's still around. She was actually one of the early very good women economists. Although we were on other sides—

01-00:47:18
Sharma: Were you thinking or working in macroeconomic issues at the time at all? Dealing with budgetary issues or deficits?

01-00:47:29
O'Neill: Other than while I was at CEA, and then after, I always, just as an economist, followed what was going on. You asked me about Reagan. I was in favor of tax cuts. Oh, no. While I was at the Urban Institute, they put out a volume analyzing Reagan's budget. I and another person did the tax chapter. He did the corporate tax and I did the income tax. It was clear that the taxes had to come down. Inflation had also jacked up the income tax rates so that they became totally unsupportable.

01-00:48:16
Sharma: Bracket creep.

01-00:48:17
O'Neill: Yeah. So I did get very into taxes at that time, and remained, actually, interested in taxes.

01-00:48:27
Sharma: Do you remember the thinking among people you were around about the growth of the deficit under Reagan?

01-00:48:36
O'Neill: Yes. At the Urban Institute, it was a big topic of conversation. The Urban Institute book took the point that the deficit that would be created would be harmful. Would lead to a reduction in growth and so on, so forth. Of course, that didn't happen. The tax cuts happened, and growth didn't take too long. It was a couple of years. The economy grew quite rapidly, then, during the eighties.

01-00:49:08
Sharma: This is something that I've wondered, if people reassessed their thinking about the dangers of deficits based on the fact that GDP did grow so significantly under Reagan at the same time that the government was running these deficits.
O'Neill: Yeah, but you never know. There could be some underlying reason why. Another one was, I think, the deregulation helped. Alfred Kahn, who worked for Carter, started the deregulation. We were very regulated. Long-distance rates were regulated. Air rates were regulated. Those were dramatic changes when we deregulated. Fares dropped so precipitously afterwards.

Sharma: So the thinking was that economic growth is a very complex thing—

O'Neill: It's very complex. I do believe that high taxes are not very good for—especially when they're not needed. It depends what they're going to be used for. I am sort of a supply-sider to that effect. I think that incentives matter. With the income tax, high rates affect what people are going to do. I think if you look at your own behavior, if some opportunity comes along and let's say you make another $500,000, if you think that 50, 60 percent of it is going to get taken away, you might say, hmm, why bother? I think it affects the type of occupations people might choose and things of that sort.

Sharma: Let's move on to your tenure at the CBO. How did you end up at the CBO?

O'Neill: I began working with my husband on a research project—what are the effects of mandates, because employment and mandates to pay for health insurance had been proposed, actually, in the Nixon years. There was almost a mandate passed. Caspar Weinberger, he had the Partnership Act, which would have required all employers to cover their workers with health insurance. That was always an issue—what would happen. Since health benefits are essentially paid for by workers in the form of lower pay, what happens to low wage workers and minimum wage workers? There's nothing to roll his or her pay back onto, so it's got to lead to a reduction in employment. My husband and I wrote a paper on the effect of mandates on employment. Then Hillary Care came along. Oh, well what happened in 1988—I totally forgot. I came to Baruch to run this little center for the study of business and government. The president of Baruch at the time, Joel Segall, knew me a little bit from Washington. He was an economist, I think. He was the dean or the assistant dean of the business school at the University of Chicago. I knew him in Washington a little bit. He wanted to have more grant-funded research. My experience at the Urban Institute—I was always somebody who was writing grant proposals. I was already into that process. The person who had directed this little unit, that was doing some economic research but had never really done any grant proposal writing, he—would I be interested in it. At that point, I was interested in doing something academic fulltime. So we moved back to New York. I'm a professor here at Baruch. I started doing academic research. That was how I became interested in health mandates. I did a series of papers on various kinds of things on welfare reform. Then got a grant to look at the
effect of Hillary Care on employment. We got actuarial work. We had an actuary who had information on what is the cost of health, what do we pay for health, what do employers pay for health benefits in different parts of the United States—all the states and to the extent subdivision of states. Then we used the current population survey. We used the same method that we had to look at mandates, because the core of the Hillary Care was a mandate that employers would be required to cover. We had an estimate that it was quite large, the number of people who would be dis-employed. I can't remember exactly what it was.

01-00:55:43
Sharma: I think it was 700,000 or something.

01-00:55:45
O'Neill: No, it was more like 200,000, 300,000 or something like that. That got a fair amount of publicity. The administration was not happy with that result, so they did make a change. They then threw in subsidies, but that of course made it more expensive. Subsidies to firms that hired low wage workers. I think we then did a re-estimate, which lowered the number of people who would be dis-employed, but anyway. That was probably one thing that might have brought me to political attention. I think most CBO directors had some political connection in one way or another. Alice obviously had—her husband, I think, was the Democratic fundraiser for the east coast or something. And she knew Muskie. Muskie, in fact, started CBO because he thought it was such a great idea. It makes life easier if you have some acquaintances in the Congress or the CBO. I actually had none. I didn't know anybody. I think when they were looking around, Bob Reischauer had been the director at CBO for many years. The Republicans took over the Congress. They asked for lists. The CBO director had always been somebody who at least had a Ph.D. and had academic credentials, had written articles that somebody could read, and had sufficient background that they could do the job. I was on these lists. For one reason or another, they went through the list. As I mentioned, when it got to me, I was interviewed by various people with some political connections, like Dan Crippen. Then finally, I went to see John Kasich. It rotates every term. The House gets the turn to be the first one to make the pick for the CBO director, and then it switches over to the Senate side. He liked me, and unfortunately had not said anything to Senator Domenici. On a Sunday talk show, he said, "I found the CBO director," and he mentioned my name. Domenici was infuriated. He said, "She cannot be the CBO director. I have never met her. I don't know this woman. We have to start all over again." And he said, "I will start my own search." So he started. This meant that it sort of dragged out for a while, as Domenici got the same sort of list. I'm a Republican, but I wasn't an inner-circle Republican with any political connections. I had been on the staff of the CEA when Nixon was president, so I guess that helped, and I had been at CBO. I had credible background. Domenici looked and looked and looked. He still wasn't finding anybody. I did know somebody who knew him, because she was from New Mexico. Not
a politician. I said, "Maybe if he could actually talk to me, he might change his mind." Finally, he agreed that he would speak to me. He asked me questions. Would I do this, would I do that. I think there was some fear that I would fire everybody at CBO and replace them with friends of Gingrich or something like that.

01-01:00:37
Sharma: Can we switch the tape? I want to ask you some more questions about your appointment because I think it's really interesting. But we're going to run out of tape in a bit.

Begin Audio File 2 oneill_june_02_03-01-11.mp3

02-00:00:06
Sharma: This is Patrick Sharma here with June O'Neill, March 1. Tape two. We were talking a little bit about the process of your appointment to the CBO directorship. This is in 1994. Yes, 1994.

02-00:00:21
O'Neill: Actually, it didn't happen until March of '95, because these months dragged by.

02-00:00:27
Sharma: Right. It became sort of a delayed thing. There might be some interesting implications of that, but let's deal with that later. The narrative you've just sketched seems to indicate that Pete Domenici's hesitancy to your candidacy was because he wasn't informed. That John Kasich didn't inform him. Were there any more substantive issues at root there?

02-00:00:50
O'Neill: I don't think so, because I don't think he knew anything about me at all. Except that I was coming in with the Gingrich crowd. The House and the Senate do not march to the same tune, even when they're both of the same party. They have different ways of doing things. Domenici—somebody that he had never had anything to do with, I think, was—but I had never had anything to do with John Kasich either.

02-00:01:31
Sharma: One of the things that we've tracked is that there seems to be a fairly important split within the Republican Party over budgetary matters. Old-timers like Domenici and Bob Dole, who are much more concerned about budget balance, and the Gingrich cohort, which are much more concerned about tax cuts.

02-00:01:47
O'Neill: At the time, I don't think that they were intellectually that far apart. I don't know, secretly, what Domenici thought. Certainly in the early hearings, they were sort of talking the same talk. That Contract with America was a significant imprint. They did a lot of the things that they said they were going
to do. I think them versus Clinton was really much more important than the Senate versus the House, eventually. Domenici had been working with people at CBO for a long time and he was afraid that they might be fired. CBO people work there. It's not civil service. So I could have fired them, but I said, look, I know these people. I worked with them. A lot of them are the same people that were there when I was there the first time. There's no way you can learn budget stuff overnight. I couldn't pull a Gingrich friend off the street and put them in and expect them to do the work. It was obviously impossible. You need seasoned people to do the kinds of things. Much of the stuff is apolitical. Obviously, not all of it is. To tell you the truth, because CBO originally had a Democratic hue, people who were interested in working there tended to be Democrats. Washington tends to be Democrats. The people who live there are more likely to be Democrats than Republicans. I have no idea what people's affiliations actually are, but I would guess that the majority sort of leaned toward Democrats. It may have changed from time to time, but that is more or less true. The extent to which it influences what one does, most of the time it doesn't. The kinds of opinions that you would have on an estimate, most of the time it really can't. You have to have technical support. You have to have support for what you're doing.

Sharma: It seems like a recurring trope throughout the CBO's history is that the congressmen expect it to hue one way or the other, but then the CBO invariably ends up producing forecasts or estimates that don't adhere to that. It seems like a much more technocratic, apolitical institution than Congress often wants.

O'Neill: I did change a couple of people, but that was all—

Sharma: Would you mind discussing that?

O'Neill: One was in the health area. It was somebody who was there who I knew, but I thought that they really needed somebody who was much more—this is in the studies unit—who had much more experience with Medicare and Medicaid and the programs. I brought in Joe Antos, who remained for many years. Now he's at AEI. Because health had really become much more important. That group did labor studies and various things, but Medicare and Medicaid had become really important.

Sharma: Right. The big drivers of the budget in many ways.

O'Neill: He was the head of the group. The directors more frequently change than underlying staff. Actually, he was the only one. Later on, one person left of
his own accord and I brought in somebody to take his place. Much later, I did change somebody, but that was in an operational part of CBO.

Sharma: This might be a stupid question, but can you just describe how John Kasich actually contacted you and how this looked from your perspective? Were you interested in the CBO directorship? From your point of view, were you excited about the possibility?

O'Neill: There were other people, lower down, who had called me along the way and said, "Would you be interested? We're putting together this list." They asked people at Hoover, they asked people at AEI, they asked people who had been in various parts of the government during Nixon/Ford or Reagan—

Sharma: Right. I think one article said that John Cogan and Jim Miller had been considered.

O'Neill: Neither one of them was interested. I know that. I think that they might very well have started with them. John Cogan would have been an obvious choice.

Sharma: Obviously you were interested in the position, but did you have reservations about it? What did you envision an O'Neill directorship of the CBO would be?

O'Neill: Washington politics are truly fascinating. Along the way, having worked on the Hillary Care, welfare reform, and many of the different topics that come up, I was interested in the work. I also knew Bob Reischauer, who had been at Brookings. With these people, it was sort of like musical chairs. I knew that CBO really combined doing serious studies along with having to respond quickly to providing information—budget estimates. I thought, I really know a lot of the things that people should know who do the job, actually having myself done these cost estimates for several years. I knew what goes on at CBO. It seemed like a really interesting challenge. I was very interested in doing it.

Sharma: What did you want to change, if anything, when you got to CBO?

O'Neill: I didn't really know enough about the construction of CBO as it had become to know what to do. Now I know more about some things that I should have done that I didn't do. One of the things that I didn't do was—CBO has recently added maybe too much of public relations people, but I didn't have any liaison at all with the Republican Congress. There was one person who had that job with Alice Rivlin, and he was still there. In the old days, he knew all the Democratic powers to be. He didn't know a soul on the Republican side. He
could do absolutely nothing to help me. Even if we needed more space, more chairs, I would be turned down because they didn't like him. I became maybe a suspicious character that I hadn't put someone in that job. That was the liaison. He was supposedly somebody who was the liaison, but he couldn't really serve that purpose. I had no one to talk to reporters. I think that too often, other staff at CBO, reporters would talk to them, thinking that they would get the true scoop from them rather than from me. I was not savvy enough politically. I just focused on the work at hand. There was quite a lot of work at hand. Some of the things that I did I think are the right thing, and that some of the CBO directors have strayed too much in the other direction. When somebody works in a study group, works very hard on a paper that they have produced, even though the CBO director can testify, I let that person testify for a couple of reasons. One is, it was really their work and they should be acknowledged. The other thing is, if they were to ask a really technical question, I would have to turn around and ask them if I was testifying. They would know the answer off the bat. It really didn't serve any point. But on the other hand, it meant I probably did too often let the other person testify. I became less well known. I probably could have helped myself by testifying more, but I didn't. I limited it to things that CBO directors have to do. The presentation of the annual report, the report on the revision of the president's budget, the summer budget, and then a few key things, like the paper on Fannie Mae and Freddie Mac, because it had become very political. I testified on that. The person who wrote it did a brilliant job. That paper is still alluded to and written about. It's a very good paper. I think he's gotten credit. He did get credit. He was sitting right next to me.

02-00:12:00
Sharma: It's interesting to me that the—

02-00:12:03
O'Neill: It was actually on Fannie Mae. It was on the government enterprise, but the focus was on Fannie Mae.

02-00:12:16
Sharma: Did you think that CBO had become more prominent since your first stint there? The fact that it had to have media relations, had to have a sophisticated liaison with the Congress. That it couldn't just exist as this one-off office.

02-00:12:32
O'Neill: The CBO cost estimates became really crucial. I did a lot of work internally at CBO. Looking over the papers. Really going over the papers. Major cost estimates I got involved with, and also the forecast. I became more of a macro person. A necessity. That was what caught the attention. That was always something that was hashed about in the papers.

02-00:13:14
Sharma: In reading through some of the newspaper articles around your appointment, one of the criticisms—an anonymous criticism, like so many are—was that
the CBO director needed to be somebody who was respected and known on Wall Street.

O'Neill: Wall Street? Well, I don't know about Wall Street.

Sharma: Because projections about the U.S. fiscal position are so important for the bond markets and that kind of stuff.

O'Neill: That was not on the horizon at all. The *Wall Street Journal* was on my tail constantly. [Bob] Bartley, the editor. It was a very interesting period in a lot of ways. Gingrich imposed himself on a lot of things. He thought that our forecasts weren't correct, that they should have been rosier, and so did the *Wall Street Journal*. Now, in the short run, he turned out to be correct. Incidentally, the forecasts of CBO were always very much like all the blue chip forecasts. They're never very far. We always publish what everybody else was saying. We looked at what everybody else was saying. We looked at OMB, what they were saying. They were very close to what OMB was saying. Actually, one of the things that always happened was that for the current year, we were always a little bit closer than OMB to what actually happened. When you're coming out of a very good time, like during the eighties when you started having very good growth, the forecasts of CBO were always rosier than what actually happened. If you ask Rudy Penner, he'll tell you they're always rosier. Because your recent history was rosy, so that's all you have. When you go to do an estimate, you have the past, and sometimes you don't even have enough information about the past. Nobody knows what's going to happen in the future. And nobody has ever forecast correctly. Forecasts are always wrong.

During my period, the early nineties were very sluggish. If you looked at the past, figuring in the CBO forecast, and we always showed that they were getting better, but not better enough. What actually brought the surplus, in part, was that there was budget restraint. One of the reasons there was budget restraint was the fall of the Berlin Wall and the end of the Cold War. Defense wound down. Defense was really reduced by about 25 percent over a period of time. As part of the Contract for America, they had promised to restrain many programs, and a lot of those programs were restrained. Farm subsidies. Nobody ever thought that would happen, but it happened. That was restrained. There was a general aura of restraint. The CBO in those days, the budget committee required that we would present three projections. We would do flat, no change and current, just staying nominal terms budget. No change in the programs. This is for the non-discretionary. Of course, the entitlements are a different story. We had another one that adjusted for inflation, and a third one that adjusted for inflation plus other stuff, like population, that you think might have some effect. We would have these three projections. There was a lot to choose from, and then they would work. So they had various baselines...
that they could choose. The lowest one gave you an idea, if you did nothing at all, what would happen. That was close to what happened. They did hue to the line in that way. With the entitlements, those were there. There were a lot of arguments every year over Medicare and Medicaid. Medicaid almost got reformed.

02-00:18:38  
Sharma: Turned into a block grant.

02-00:18:39  
O'Neill: To a block grant. Actually, that terrified the states to such an extent that the expenditures actually went down for a year, I think. There had been a period of explosion when there was a program, the DSH program, disproportionate care. Money is always fungible. That was a good lesson. If you give states money for one thing, they spend it on another. So they were giving disproportionate care—

02-00:19:09  
Sharma: Can you educate me on this? I'm not familiar.

02-00:19:12  
O'Neill: It was a program—it's still around—where distressed hospitals, because people come in for emergency and so on, got federal money. It was a very large transfer. They put it in Medicaid. The states tended to call it Medicaid expenditures. It became part of Medicaid. I'm not sure if I'm remembering correctly, but Medicaid exploded. When I came in to CBO, it had a 20 percent increase. That had to be cracked down, and I think that was the impetus for actually going for the block grant. I think that block grant has figured in many of the proposals for what to do about Medicaid. I happen to think it was a really good idea, sort of following in the footsteps of the welfare reform that worked out very well for welfare reform. The way it is now, you have rich states, like California and New York, getting a very large chunk of Medicaid, much more than their population. It makes it hard to change, but I happen to have thought that was a good idea. However, I think Clinton vetoed that one, so it didn't see the light of day. It didn't remain permanent, but it did help to retrain Medicaid for a bit. The thought of it was enough to be restraining. But another thing was—and this was one thing that got talked about the most—the contract had balanced the budget in seven years. When I came in, the Clinton budget for 1996 had absolutely nothing. Clinton had raised taxes, and that was the contribution to deficit reduction, but they had done nothing more than that. So the Clinton budget for 1996 had really nothing much for any further deficit reduction. When the balance the budget in seven years came out as an actual bill, the Clinton administration said, that would be insane. It would mean hunger, deprivation. It would be terrible. They thought about it and said ten years. Of course, the budget became balanced in about three years, but just to show you how far off anybody's projections were. It was really sort of a different world.
Aside from the defense spending restraint, what accounted for the surpluses of the late 1990s?

One thing was that there was an underlying increase in productivity. There was a lot of debate—everybody knew it was there—but how much growth could that possibly produce? What it came from was, finally, the Internet came of age, and firms began to figure out how they could use it. I think most economists agree that that really gave a tremendous boost once we grew out of the rocky turnover from the end of the Cold War. Actually, cutting defense expenditures probably had some negative effects because there are a lot of jobs involved with that. There were a lot of changes that had to be made in the economy. Actually, one thing to ponder is how come the Clinton tax increase—well, at first, it appeared as though there was some slowdown in growth. But then we did grow after that. The argument is, well, was it that underlying productivity that overcame? It wouldn't have mattered what they did with taxes. There was this growth. The other thing that happened was the market went crazy. That became very difficult to take account of in the forecast. We could see that the stock market went up. We knew that there were stock options. We knew that taxes would go up as a result. But there was no way of knowing how much. You don't know that until April. The first time there was an April surprise was in April of 1996, when it was clear that we had understated the forecast. Gingrich was constantly saying, "CBO is back in the Dark Ages. They don't know how to do forecasts. They're always underestimating what growth is going to be." He had some estimate of what growth should be, and he kept calling me into his office and he kept making announcements, "I'm going to fire her because she can't see clearly that growth is going to be much greater than the CBO forecast." I would go. He would say, "And she's coming to the dinosaur room." I would go with Bob Dennis, who was the head of the macro division. He said he would be looking at this tyrannosaurus. He's crazy about animals. He always was crazy about zoos. He once told me, from the time he was a child—

This is Newt?

Newt, yes. When he lived in Harrisburg, he had a plan to change the Harrisburg zoo when he was ten, and went to the mayor and told him his plan. But he liked animals and he also liked dinosaurs. The dinosaur room had dinosaur models all around it. We would go, and the reporters would be outside. We would tell him how we made our forecast. We told him, yes, it's true. We don't know for sure what productivity is going to be, but nobody does. Sort of to err on the side of caution. We also had a fan diagram showing the uncertainty of the—everybody wants a point estimate, though, so the fan diagram didn't really—nobody looks at it. We did say, suppose it was more, suppose it was less. But he was very nice, Newt. He would say, "Oh, this has
been wonderful. It's like being back in college again." He liked to talk about all these things. He did have an academic side. The reporters would say, "Did he fire you? Did he fire you?" "No, no, he didn't fire me." Actually, I was on leave from Baruch, so I would always come back to my old job. It wasn't anything like I was terrified that I would be unemployed.

Sharma: What did you make of these threats and the flack that you amazingly got from the right? Previous CBO directors that we've spoken with thought, well, this is just sort of what you sign up for, that the CBO is going to get kicked from both sides.

O'Neill: Yeah, that's exactly right. We didn't change anything. Then there was the debate over dynamic forecasting. They never proposed a reduction in the Clinton marginal tax rates. They changed. There was no major tax change ever proposed. There are a lot of problems with the dynamic forecasting. One is that you don't really know the exact path. For next year, there might not be any effect. We did agree, and we always did this, that every summer after the budget was passed, we would have a section in the budget talking about what we thought the macro effects would be of the various major changes in the budget. We did that every year. Not that anybody ever read it or paid any attention, but it was there. Another thing, I would always write a letter to Mr. Gingrich, pointing out that there was a House rule that actually forbade us from making a dynamic forecast.

Sharma: Oh, is that right?

O'Neill: In the official budget projections. I think that rule is still there. It was in the House, and the rule said that if the Congressional Budget Office is asked by a member to produce a study of possible macroeconomic effects of changes in the tax system or something like that, they can prepare a study, but that study should in no way be part of the official forecast. It says that in the rule. I would remind them of the rule. Nobody ever changed the rule. Even had we wanted to, it would have required a change in that House rule in the Ways and Means Committee in order for us to actually do a dynamic forecast. A lot of strange things happened with the dynamic forecasting, and a lot of it may have been puffery. I don't know. Of course, a dynamic forecast is convenient because it allows you to spend more. That's the only thing it's convenient for.

There was a tax reduction. The Clinton tax rates meant that the rates on capital gains would go up. They were very high. The Republicans, the Ways and Means, they did lower the capital gains tax significantly. That must have helped change. If people had invested in something else, the market was the place to go. I think that contributed to the surge in the market. But it was that surge in the market, combined with incomes really going up, because although
the tax system was indexed for inflation, it wasn't indexed for increases in wages that were above that. Tax rates, there was bracket creep. That was happening. But the big thing was that the category of revenues, non-withheld income, that was what really grew. That grew because of all of the things surrounding the market. It was unbelievable, the amounts that came in. Eye-popping amounts came in under the non-withheld. I don't have the budget in front of me. It was never that high before, and it's never been that high since that increase during the nineties. That really put the budget over the top. There was just no way of forecasting. I said, "Call the people in New York," because that's where a lot of it emanates from. They would call the office in New York that does the estimates. They said, "Yes. We're calling around to Goldman Sachs and all these places, but they don't reveal in advance what the bonuses are going to be and things like that. But we're just as interested as you are." The other thing was that if you exercise a budget option, it's not withheld income. That comes in the non-withheld income tax. That's taxed at an ordinary income, actually. I don't think it's taxed at the capital gains rate. They became huge. I was sort of following it in the paper. I saw Eisner, the head of one of the movie companies, he cashed in an option that was half a billion dollars. One guy, one action. How many more of these people are there? We didn't know. We were always behind the times. We couldn't believe—it did it once—that it was going to do it again. Then it did it again, and then we thought, is it going to do it another time? This string can't possibly go on forever.

02-00:32:00
Sharma: If you could forecast the market, you would be in a different business.

02-00:32:02
O'Neill: But it was more than forecasting the market. Knowing what they were going to do, what brackets these people are in.

02-00:32:11
Sharma: And so the tremendous expansion of tax revenue, was this something that became apparent over time? In 1996, you just alluded to O'Neill's miracle. Right after April—I think it was in late April or early May—the CBO revised—

02-00:32:30
O'Neill: Yeah, the Journal had that thing. It was a very snide article. They were constantly on my tail. Bartley.

02-00:32:39
Sharma: For purposes of background, this was a revised forecast based on windfall tax revenues?

02-00:32:47
O'Neill: Obviously, we had to revise the forecast in the summer. The other thing that happened was—that was about balance in seven, balance in ten. We noticed in the summer of '96, things were getting a little better. No, going into the next
year. That was when we had the big powwow between CBO and the administration. The shutdown period. There were a number of parallels that were sort of odd. It was a terrible winter. The weather was absolutely awful. The government shut down for almost a week, just because of the snow, during that same period. It looked like the government shutdown because of the budget was really huge, because the snow week was added to it. Before that happened, the debt ceiling was going to be reached. The Republicans—there were some who were really getting very histrionic. "We will never raise the debt ceiling. Never. Never." Actually, it's the gross debt ceiling, so that, in a way, it's not a catastrophe, because there's that chunk between the publicly-owned debt you have to pay. But that was not what was at issue. It's the money in the trust funds, hundreds of billions of dollars. Now it's trillions that are in the trust funds. Those are IOUs, so there are ways of sort of getting around that. That's actually what Rubin did when the debt ceiling was reached. There were maneuvers that he could make, and he did. Nothing crashed as a result of reaching the debt ceiling.

02-00:35:07 Sharma: You just alluded to a powwow between—

02-00:35:09 O'Neill: Actually, there were disagreements about what should be in the discretionary, what should the forecast be, but a lot of it was the forecast. The administration thought it was more rosy than CBO's last budget estimate. We agreed that it seemed that things were changing. Actually, I always thought that the really harsh winter had probably led to some reduction in private activity. It was a winter at least as bad as the one we had. Many plants were shut down for long periods of time. It was a horrendous winter. Nobody knew what would happen once the spring. I was convinced that, come the spring, things would look a little better. Gingrich and the president got together and said, well, we'll have CBO make another special forecast. This was unusual because we had made one earlier. Actually, there had never been a budget for that budget year. We were still in a continuing resolution. That's similar to now.

02-00:36:30 Sharma: Fourteen continuing resolutions.

02-00:36:32 O'Neill: Right. The old forecast was old. We would, in advance, do one. It was in December or January. It was in that between period when we actually did another forecast.

02-00:36:52 Sharma: And this was at the request of—

02-00:36:55 O'Neill: The Clinton administration said they really had the feeling that things were getting better faster than CBO thought. We were willing to redo our forecast and to hear what they had to say.
Sharma: And also the Republicans would want that, too.

O'Neill: Yeah. There was an argument about, where would this take place? The Clinton people wanted us to come there, but we said, no, there's a firewall. CBO cannot do anything that appears as though they are being influenced by the president. They understood that. Actually, no, Clinton did not ask us to come there. They agreed just that we would meet and that they would send their economic people: the head of the Council of Economic Advisors, the National Economic Council, the people who do economics at OMB. It was Joe Stiglitz who came. Larry Summers was there, Joe Minarik was there, and a bunch of other people. They came. It was at CBO in a conference room. The people who were mainly involved in our forecasting came. We sat around. It was an economic discussion. Could productivity growth—what could be happening? Could it be more, could it be less? And so we did a new forecast, and that new forecast showed somewhat more growth than we had before. It was still probably not quite as rosy as the administration's, but it was rosier than the last one that we had. It was still behind what actually happened. Even that rosier forecast did not predict the April so-called miracle.

Sharma: The common understanding is that the revised CBO forecast, the more rosy CBO forecast, allowed some breathing room for the negotiations over the fiscal year '97 budget to proceed.

O'Neill: It did. I was personally never in favor of a balanced budget. In fact, I don't know why the Republicans—usually, they would be more for caps on spending rather than a balanced—of course, you can also balance the budget with higher taxes, but anyway.

Sharma: High revenue or low revenue.

O'Neill: You can never literally do that. You want to hear another funny anecdote? It just popped into my head, about dynamic scoring. This was at the CBO budget. Every year, I had to go and present our request for what we wanted. We never asked for more than what we had. We more or less had the same dollars every year. I went to testify. A member of Congress came in. He said, "I have to speak." They said okay. He read this thing. It was a huge attack on me, and it was all about dynamic scoring. Then he finished and he left. No, no, no, he didn't leave. He was still there, because it was at the very end of the hearing on my budget. The person who was chairing the appropriations subcommittee that dealt with my budget was friendly towards CBO. I think Newt made some sort of attempt to cut the CBO budget to show his displeasure. It never happened. He did send a letter to the appropriations committee, but they didn't do it. This gentleman at the end, I went up to him. I
said, "Congressman"—and his name was Congressman Cunningham—"I'm sorry that you're so unhappy with CBO. I'd be happy to meet with you." He smiled and said, "I just read what somebody handed me. I don't even know what dynamic scoring is." That was Randy “Duke” Cunningham!

Sharma: Is this the Congress—

O'Neill: Yeah! [laughter]

Sharma: Okay. I was going to say. Wow. This is something that's a recurring theme, that the CBO, for Congress, is sort of a black box where forecasts happen. It's a politically useful institution because it can be beaten up for political gain.

O'Neill: You can say things that you don't mean and know that they will never happen. Of course, I think that they became really dependent on CBO. The harder heads that are in the budget committees have to really have some idea of what these things are going to cost. I think the usefulness of CBO became apparent.

Sharma: Reflecting on your tenure there, and then you had this wonderful experience before, when CBO was in its infancy, how did you see the institution change over that period of time?

O'Neill: I think that the directors do have some effect. Peter Orszag obviously pulled it in a direction that he was interested in. He was interested in health reform. The CBO staff was greatly expanded. I think he changed the staff and greatly expanded the staff that was working on health reform. He didn't make any bones about it. He was interested in it, as he proved to be when he could speak in his own voice. And then directors change. Domenici appointed Dan Crippen. He knew Dan Crippen. I think he might have even worked for him at one point. So CBO became liked. He was able to get more space and better furniture. Actually, I used to like the old furniture. I was happy when someone came to see me and they'd say, "Oh, you have all this shabby old leather furniture that's all cast-off." Seats and castoffs from other places. I thought it made us look much more serious. [laughter]

Sharma: Yeah, with regards to budgetary matters.

O'Neill: And not to have luxurious trappings. It was clear that we were not being bribed in any way. Although, the CBO staff probably would have been happier if we had some more space. We were extremely crowded when I was there. The staff had increased, not under me, but under Bob Reischauer. Over
the years, the staff had just increased. There wasn't space. Gingrich had told whoever it is who gives out furniture not to honor any of our requests.

Sharma: Why do you think you had such trouble with Gingrich and those Republicans in Congress?

O'Neill: I think because we were a scapegoat. It allowed him to always say, really, things are getting much better, so you don't have to pay that much attention to the CBO forecast. But that didn't really happen. In terms of the estimates themselves, he asked for things as often as other members of Congress. Professor Cornpone. There were things that he lobbied for that he wanted. There would be arguments about that. We were always willing to see the other side, but we could never really change an estimate as much as they would have wanted.

Sharma: Do you feel that he had pretty dominant control over Congress?

O'Neill: There were a number of other people. There were some really good people who were in the Congress at that time who were extremely well-versed. They knew a lot about the nitty-gritty of things. That was not the type of person Newt Gingrich was. He was a big picture man. In terms of the detail, Archer was excellent as head of Ways and Means. Bill Thomas in health—he was somebody who could even do his own cost estimates. In his office, I would come talk about some estimate. He really knew a lot about the underpinnings of legislation. There were several other members like that, who were really outstanding. John Kasich was absolutely amazing in terms of his ability to run the markups. He was constantly adding up things in his head. He could quickly figure out where the thing was going. He was on top of the legislation, but a very quick calculator himself.

Sharma: Did your relationship with him change over time?

O'Neill: He would warn me sometimes. He said, "You should try and make more inroads," but he didn't really introduce me to anybody that would have helped. I wasn't aggressive enough. What I should have done was make room for hiring a Republican who did know everybody, so that I would be able to talk to members and assuage their fears about things that they might be worried about. But I never did that.

Sharma: What about your relationships with the Democrats in Congress? Was there a lot of dialogue?
Actually, they thought that I was sort of standing up to Newt Gingrich, so they loved me. [laughter] I don't know whether they really loved me, but they were very cordial. Everybody votes on the CBO director. CBO director wouldn't come in if the other party did not approve. There were a lot of articles before I was confirmed of people saying, "She is the most conservative person since Genghis Khan. There's never been such a conservative CBO director."

I think Tom Daschle wrote an editorial, as a matter of fact.

It was sort of the opposite. The Democrats were really afraid. There was one article in The Washington Post where they were saying, "She's going to cook the books. She's going to cook the books." [laughter]

Right. I have that referenced here. That was Tom Daschle, actually, who was, I think, using that.

It could be.

Your predecessor, Bob Reischauer, was appointed by Democrats. His last major act was, as the CBO director, providing this fairly sober, negative assessment of the Clinton health care reform. That went against Democratic wishes. You, as a Republican appointee, butting heads with Republican congressmen. I think it speaks, maybe, to the apolitical nature of the CBO a little bit.

The press now keeps saying that Clinton and the Republicans had the perfect relationship, that they got together. That was really not true. Gingrich had partly poisoned it because of his tantrums about where he should sit in the plane. That was widely discussed. That was sort of foolish. The shutdown thing was a lot of bravado. Welfare reform—that was not the welfare reform that the Clinton administration wanted. In fact, all of his people quit who had worked on the version of welfare reform that they wanted. They thought that the welfare reform that the Republicans put together was much too harsh because it had the work requirement. They said there would be hunger in the streets and so on. He did sign. You never could tell with Clinton. He had been this New Democrat before he was president. He had said that he was going to end welfare as we know it, which this actually did. In social policy, I think it's one of the most successful, if not the most successful, that ever happened. The welfare caseloads, despite this recession, have remained very low.

By tying it to workfare, in other words.
O'Neill: Yeah. The work requirement. In New York, it was unbelievable. New York was sort of the granddaddy of welfare. New York always seemed the most generous. They cut welfare, and the caseload is still down in New York.

Sharma: I want to just discuss with you your departure from the CBO. Just as your ascension to CBO director was sort of contentious or vexed in a way, your departure was also somewhat contentious. You had mentioned The Wall Street Journal editorial page sort of being a nemesis of yours. They even had a story, before you announced that you were going to resign, saying that you were going to resign. What were the circumstances surrounding your departure?

O'Neill: I stayed until the end of my four-year term, despite the talk and so on. I always planned to come back, to be an academic. I had never planned to stay for more than the four years. I did have another life. There were other research projects that I wanted to work on. I didn't want to commit myself to being a perennial Washington policy person that would only be in a Washington job. The jobs get stale after a while. I really did want to return. There wasn't anything sinister about it. The other thing was, it was going to be Domenici's turn anyway. He would have wanted to appoint someone that he would regard as his friend. Although, I think Dan Crippen had a similar relationship, but the honeymoon was short. There were various things that Crippen did that Domenici did not like.

Sharma: Did you have a say in who would succeed you? Was your advice solicited in that respect?

O'Neill: I might have been asked, and I probably would have said John Cogan, if you could get him. There aren't very many Republican academics who have anything to do with policy at all, or in Washington. It's always hard for Republicans to find somebody to do these various jobs. They seldom stay very long. They regard themselves more as some other life—academics. Many more academics are Democrats. Maybe that's another thing, that just simply the numbers aren't there. Probably a minority of academics are Republicans. Even economists who probably tend to be somewhat more conservative than the average academic. I'm sure a minority are Republicans. They're much less likely to be writing op-eds. The Wall Street Journal even had an op-ed of mine recently. I think they have more trouble finding somebody to do a CBO job. They would want to have somebody who was once in a budget office, either OMB or CBO. They really probably count on one hand the number of Republicans who could conceivably take a job as the head of a budget office. More likely, head of CEA, the Council of Economic Advisors. There is that strange difference, that economists tend to be Democrats more than otherwise.
Maybe a few more went over during the Reagan administration. Might have changed their stripes.

We could talk about that at length, but it will take us away from the subject. I want to get your reflections on the art of forecasting, just to conclude. One of the things that Crippen became notorious for was the CBO, under his watch, projected this massive surplus, like a five trillion dollar surplus or something. Who knows where it came from, but it served as justification for large tax cuts in the Bush era. It strikes me, as I've approached this subject, that doing forecasts out five, ten years is almost—I don't want to say a fruitless endeavor, but it's a fraught endeavor.

You don't even know for the next two or three. Often, those are more wrong than five or ten years. I used to say, any time I was giving a talk, that projections are hard to make, quoting Yogi Berra, because you don't know what's going to happen in the future, and that's true. I had a hunch that it wouldn't last. I remember—it was just before I left—all the CBO directors were at some program. They asked us if we thought the surplus would still be there in five years. I think I was the only one who said no. Actually, maybe because I had been sort of closer to Congress. Well, there were a couple of things. One is that I thought that the market wasn't going to go on forever, and that that was unlikely to last. People don't give enough credit, but if you just look at the components of revenue, what happened was that it was the non-withheld income that was growing, and that came out of the market. But the other thing was, what can you do with the surplus? Gore was talking about a lockbox. That was silly. There isn't any lockbox. There's no way you can pay off, right now, Social Security. It's there, the surplus. If it's there, it's very hard not to get it spent. With all the constituents, everybody has a bright idea. They would like more teachers. They would like more police. Although I don't know why the federal government is paying for police in Yonkers or wherever the money goes. They began thinking of new things, things that had never been expenditures of the federal government. It would be nice if the federal government did this. Once you got all the members of Congress with their wish lists together, the surplus was gone. Even with the forecasts, I wasn't really consciously playing a game, making the forecasts worse because I thought they would spend it. [laughter]

Being conservative with the estimate.

But I knew that it was unlikely to have all that money out there. The surplus was the first time we had a surplus since, I think, the twenties.

There was a point in '69—
O'Neill: Maybe for a moment.

Meeker: One year.

O'Neill: There were eleven years of surplus under Calvin Coolidge, of all people.

Sharma: Also a period of stock market bubble, in a way.

O'Neill: There was one. Obviously.

Sharma: I'm going to ask you a question that we haven't asked anyone else, but I think it might be a good question. We don't have much time. If you were to reform the budget process in this country, what would you do? It's kind of a loaded question.

O'Neill: Basically, it was a very good thing for Congress to have its own estimators. It was a very bad thing when they had to go to the administration to get numbers to make an estimate about anything. Everything, somebody wants and somebody doesn't want. They are political. I think keeping CBO as neutral as possible is a good idea. Some amount of public scrutiny over what goes on is probably a good idea. I'm not one to think that the process is that big a deal. In fact, Rudy Penner, I don't know whether he still thinks this, but he had this great saying, "The problem is not the process. The problem is the problem." I think that that's true. There's no magic process, for example right now, that will make the Republicans and Democrats get together faster. It's just going to be the old-fashioned pressure of who has the blessing of the people more, which side leans, and the force in which they can manage to present their arguments for something like this. There was nothing magic that happened in that '95, '96 and the eventual agreement. The thing that happened was that the economy in fact did improve, so it left room for more. There were certain things that were happening and that worked, like the welfare reform. The Republicans, for a few years, really had an upper hand. Clinton was probably not that against the things that happened. In an intellectual way, I'm sure he was in favor of taking away the agricultural subsidy. Of course, that didn't last. That was one of the first things that the surplus got spent on, where they're all back again. That Professor Cornpone editorial that the Journal had was more spending on subsidies for corn, regulations that require that ethanol be made out of corn, and also that gasoline have more ethanol than it ever had before. Those are all things that feather somebody's nest, and there's certain states that benefit. There's nothing in the budget process that can do anything about that.
In terms of CBO, there is a lot of external viewing of CBO. People were watching the various moves that Douglas Elmendorf was making. I was surprised that he went to see Obama. I was being interviewed on a television station when it happened. I heard it and I said, oh my God. There is this firewall. Maybe he doesn't know about it, because he wasn't really around that long to know. CBO people can't be even appearing to bow to the president, even though probably nothing bad happened. At a lower level, CBO people, obviously, when they're making estimates, they have to talk to the people in the agencies and they have to talk to the OMB estimator. If there's a big difference in the estimate, they will discuss it. A cabinet member did come to see me to try and get me to change an estimate. I told him, "I can't talk to you about it. Go home." Which he did. It was known at a lower level that there was this big gap in the OMB estimate and the CBO estimate, and the two estimators met with each other. I think the OMB person had made a mistake. I was always extremely conscious of the administration—they're separate entities. I think that's the strength of the budget process, is that Congress is different from the White House. They have to attend to their own house. I don't know of any process that can make it easier.

02-01:03:54
Sharma: It's politics.

02-01:03:55
O'Neill: Yeah.

[End of Interview]