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Robert Reischauer

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

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

Interviews conducted by  
Patrick Sharma  
in 2011

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## Interview #1

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01-00:00:04

Sharma: This is Patrick Sharma here with Robert Reischauer on December 9, 2010. Tape one. Dr. Reischauer, I'd like to just start by asking you how you became interested in public finance and issues of public policy, generally.

01-00:00:39

Reischauer: I was finishing my Ph.D. at Columbia and teaching, and I got an offer to come down to the Brookings Institution in 1970 to work on a new project they had on urban economics. I was teaching urban economics at Columbia. I got here and the individual who was going to head up this program left for another position. Brookings decided not to go forward with the project. I was sort of floating around. They were wondering what they were going to do with me, a new Ph.D. from Columbia. A project that Brookings had started a year or two before, called Setting National Priorities, which issued a series of volumes much like what the Congressional Budget Office does now, was underway. I was enlisted to be part of that project. I worked with Charlie Schultze, Alice Rivlin, and Nancy Teeters. I began doing federal budget work along with other things. I participated in the Setting National Priorities volumes for four or so years. At that point, the Congressional Budget Office was set up. Alice Rivlin was chosen to be the first director of it. She had asked me if I would help set it up. I viewed this as a temporary assignment. I went with her down to Capitol Hill when she was sworn in. I became the first employee even before Alice got on the payroll. I got on the payroll because I had to figure out how the whole thing worked. I was there at the very beginning. The first organizational chart I ever drew was on an airplane coming back from visiting my father in the hospital in Boston. It was and is the Congressional Budget Office. [laughter]

01-00:03:03

Sharma: If you don't mind, I'd like to really dwell a little bit on your first stint at the CBO. How was Alice Rivlin chosen to be the head and how did this look at the beginning?

01-00:03:16

Reischauer: There's a very complex story. There are a number of case studies and oral histories on this. There was a disagreement between the House and the Senate over the nature of what the Congressional Budget Office should be. I should step back and say the vast majority of members of Congress had no idea that the piece of legislation they had approved (The Congressional Budget and Impoundment Control Act of 1974) called for a Congressional Budget Office. Those who knew had very little idea of what the responsibilities of it might be. But those who were very close to the decision disagreed. Some thought it should be an organization which, like many staff organization on the Hill, had very little visibility, provided technical estimates and analyses to members or committees, but was better not seen. The others, mainly the Senate—Senator

Muskie and others—envisioned it to be more of a think-tank providing broader policy analysis for the Congress, and to have some visibility once it was up and running. Well, first of all, the choice came down to a career bureaucrat—a very talented one—versus Alice Rivlin. There is a story that a coin was flipped and Alice was chosen. In any case, Alice and I had a vision that was broader, and the organization was set up as the Senate envisioned. That caused a good deal of consternation even among those who had been advocates of Alice to begin with.

01-00:05:23

Sharma:

What was this broad vision that you guys had?

01-00:05:26

Reischauer:

That the organization would provide cost estimates of bills, economic forecasts and analyses of alternative budget policies. That it would not speak solely through the budget committees but would speak, as GAO does, on its own feet. Things like that.

01-00:05:52

Sharma:

And so what did that entail? Operationally, what did you think?

01-00:05:57

Reischauer:

We built capacities that surprised some members of Congress. I'll give you just a very simple example. We hired individuals who could do macroeconomic forecasting, and we produced an economic forecast. Frank Deleeuw was the first person to hold that job as head of fiscal analysis at CBO. We issued our own economic forecast. Senator Muskie, who was the great champion of Alice Rivlin and the broad vision called her up and said it was all over the newspapers when we did this. The draft forecast was actually leaked by somebody. We were a bit naïve. We had an advisory panel meeting to discuss the draft, and some staff members from the House and Senate Budget Committee were there. The forecast wasn't finalized at that point. That afternoon, it was on the front page of the Washington Star. The Star was an afternoon newspaper that went out of business in 1981. Somebody had handed the preliminary forecast to them. Senator Muskie called up Alice and said, "What the hell are you issuing a forecast for? We have the president's forecast." We had never even considered the fact [laughter] that Congress wouldn't want an independent forecast. Of course now, CBO is viewed as the source of objective, unbiased information. In part, the executive branch has changed. Under Reagan, it became much more politicized, and so the forecasts that came out of the administration proved wildly wrong because they were attempting to push a political point of view. That wasn't as true then. The fact of the matter is all administrations, Republicans and Democrats, rightly view their job as presenting the most optimistic view about the future that retains some credibility. During the Reagan administration, the forecasts defied credibility, but that's a separate issue.

01-00:08:39

Sharma: But at least it was presented that way.

01-00:08:41

Reischauer: Our view was we should provide basically what is a consensus forecast. One that accorded to the average of good private sector and academic forecasts.

01-00:08:56

Sharma: I see. So pre-Stockman and pre-the budgetary gimmickry of the OMB: Do you think this view was widely shared that the CBO should sort of fly under the radar, for lack of a better term?

01-00:09:11

Reischauer: Yes, I think it was. There's a Kennedy School case study, which I think I'm quoted as saying that there were two visions for what CBO should be. House members in general, but some others in the leadership on the Senate side, viewed the CBO as something that would remain under the surface of Capitol Hill. A manhole cover would open and a hand would reach out and hand a sheaf of papers with budget estimates on them to awaiting members of Congress [laughter], who then would use them as they saw fit. The manhole cover would then close. Of course, that's the way committee staffs—Joint Committee on Taxation, outfits like that—had operated.

01-00:09:56

Sharma: This is leading me into my next question. Did you receive any pushback during these early years from the congressional staff who had additionally done this type of—

01-00:10:05

Reischauer: First of all, what few people understand is that the Budget Act created a few new responsibilities. Mostly it consolidated, in one area, responsibilities that were already being performed. It didn't remove them from the other committees and leadership roles. It layered on what already existed, and in some senses, gave the responsibilities to a higher visibility group. That created a lot of resentment. It was hard for unhappy members to take out that resentment on their colleagues on the Budget Committees, and so they often went after the Congressional Budget Office. There were at least half a dozen near-death experiences.

01-00:10:59

Sharma: Do you remember any specific ones?

01-00:11:01

Reischauer: Yeah, but I'm not going to tell you about them. [laughter] At some point, you can make a bid for—I have about a thousand pages of notes that I took during the first five years of the Congressional Budget Office, which are sitting in a safe place.

01-00:11:22

Sharma: In your vault.

01-00:11:24

Reischauer: In a safe place.

01-00:11:25

Sharma: In general terms, can you speak a little bit more about the tension or the threats, I guess, that a nascent CBO faced?

01-00:11:32

Reischauer: The threats came in the form of, "We'll cut your appropriation." "We'll put a limit on your staff size"—which they did. "We'll put a limit on things you can do." I'll just give you a trivial example of the guerilla warfare that went on. When Alice and I started we were given one very large room in the Dirksen Senate office buildings. Then, when we hired a few staff, we were in temporary given space in the basement of an empty hotel, the Carroll Arms Hotel, which was across the street from the Senate office buildings and which the Senate had just purchased. For the first few weeks the hotel had no heat, and this was in February. Our secretaries were trying to type wearing gloves. I was told to find a permanent home for the CBO. I spent the first few weeks trying to find where we could go. I'd go to the House leadership and they'd say, "Oh, there's going to be a new building in the Senate." That was the Hart Building. Of course, it was ten years away from being completed. Then the people in the Senate would say, "Oh, no, no. The House has a lot of space. Go to the House." We didn't want to do what OTA (the Office of Technology Assessment 1972-95) had done, which was to rent space in a non-government building ten blocks away from the Hill. It turned out that the House was buying a federal office building (the old FBI records building which had housed OPA during WW II) down behind HHS. That's where we ended up and where CBO is now (the Ford House Office Building). But Alice and I and some of the other leadership were still up at the hotel on the Senate side. We would need to drive back and forth a lot with stuff. We then moved down with the others. But we testified a lot and had to bring up a hundred copies of testimony and all sorts of other stuff. Alice was letting research assistants use her car to carry the stuff up to the Hill. The testimony, the things that the Budget Committees were wanting. One of the research assistants got in an accident with her car. We decided to ask for a car at the next round of our appropriation. I did the budget, and it was going to be a leased Chevrolet. OTA had three cars and three drivers and an individual who was a cook. Unbelievable. If you go over to GAO, the controller general's office in some ways reflects European royalty in what they have. He would come up to the Hill to testify in a limo, followed by vans filled with staff and things like that. We thought, this one leased Chevrolet would be acceptable. I checked this with the staff directors of the appropriations subcommittees. "No problem, no problem, I was told. Seems reasonable." Then, once again, there was a headline in the Star newspaper: Rivlin asks for limo. It became a big broo-ha on Capitol Hill. The "CBO princess" is asking for a limo. [laughter] Of course, we were denied the car. For many years, the appropriation had language saying, "None of these funds shall be used for a car" or something like that. It certainly was true when I was the director.

01-00:15:36

Sharma: So you faced this continual pressure?

01-00:15:39

Reischauer: I'm saying the way politics in America operates, there's a substance level. When you can't win on the substantive arguments or the arguments are too complex to focus on, you then go for the window-dressing arguments, which the limo was one. Undermine CBO's credibility by making Alice appear to be a self-centered individual.

01-00:16:13

Sharma: Limousine liberal before the term was invented. [laughter] The substantive disputes would have been over scoring of specific bills and forecasts, basically? Because that was the substance of the work.

01-00:16:35

Reischauer: The appropriations committees and some of the authorizing committees didn't like the budget committees sort of muscling in on what they regarded to be their territory. It wasn't like the budget committees were setting down hard limits that couldn't be violated. This was a different era back then. But it was just the notion that somebody else would have a say, when they're doing the 403 (a) and (b) allocations or something like that, on how much should be distributed to the appropriators, to the authorizing committee, for entitlement programs.

01-00:17:22

Sharma: So it is a case of turf war, so to speak? That it was a new institution.

01-00:17:24

Reischauer: Turf. Completely turf. New institutions, new committees.

01-00:17:30

Sharma: Nevertheless, in retrospect, your efforts and Dr. Rivlin's efforts to build up the CBO during this time were quite successful.

01-00:17:39

Reischauer: I think it's one of the great success stories of American government, quite frankly. This hasn't been recognized enough, [laughter] but it's an important institution that plays a very important role. Its position was, I think, greatly enhanced by the fact that during the Reagan administration, and at various times in other administrations, the executive branch has, for political or ideological reasons, doctored the evidence, so to speak.

01-00:18:22

Sharma:

Now, do you remember, during your first stint at the CBO, the deficit being a major concern? Or how did people think about the deficit? How did you think about the deficit, specifically?

01-00:18:32

Reischauer:

You will be amused by this. One of the big issues in the first few years of CBO was the fact that stimulative spending, which Congress had approved, was not getting spent. "How can we infuse more stimulus into the economy?," was the question. And people were worried about that. What you have to remember is, through 1974, the debt-to-GDP ratio fell almost every year. It might go up a little some years. We start out at a ratio of 109 percent in 1946, and it fell down to around 24 percent in 1974, which was the lowest point of the post WWII era. Sure, we had deficits most years, three out of four years, I think, during that period. We had deficits, but the deficits were small relative to the growth of the economy. There was no particular reason to be worried about debt or deficits. In addition, the tax system wasn't indexed. Social security benefits weren't indexed. They got indexed right around then—in 1975. At that point the baby boom was not recognized as a temporary phenomenon that would be followed by the baby bust. By the 1980s, the demographers are beginning to realize what's happening and the consequences of that on social security. The reasons that we are concerned now weren't there then. For the period after World War II, we had interest rate controls on the banking system, which made the issue of federal borrowing, which of course was going down relative to the size of the economy, a totally different kind of issue. So it's not until the stagnation of the mid and late-1970s, and then the problems in the 1980s, that this becomes something that people feel they should have a concern for.

01-00:21:16

Sharma:

Right. Was there any anticipation of what would come to be the Reagan revolution?

01-00:21:20

Reischauer:

Oh, one other thing. [laughter] Because of the fact that the tax system wasn't indexed and other programs weren't indexed, and medical care wasn't as big a budget item—Medicare had been underway for ten years, but the full ramifications of the program weren't understood at all. Nor was growing health care costs something that people obsessed about because we didn't know if they would slow down. We did projections at the Congressional Budget Office. Some were three years, some were five years. Inevitably, five years out, no matter how big the deficit to start with, under current policy, you ended up with a surplus. And the simple reason was that effective tax rates would be going up at a fairly rapid rate. Four percent inflation, three percent inflation. Nominal incomes were growing at a rapid rate. The tax brackets were much smaller and much more progressive. Wham-o. Five years later, people are paying, in effect, a lot higher taxes on their real incomes than was true in the first year. We had a system that actually worked.

01-00:22:53

Sharma: It enabled legislatures to avoid explicitly raising taxes and to continue getting revenue.

01-00:22:58

Reischauer: Yeah, right. It played to the strength of our system, which is procrastination. You solve problems through procrastination. Doing nothing, that's what our Congress, does best.

01-00:23:13

Sharma: Yeah. History's born that out a little bit. Do you remember the transition—Dr. Rivlin and you're leaving of the CBO in the early eighties? Circumstances around that.

01-00:23:33

Reischauer: I left in '81. I agreed to come to the Urban Institute as the executive vice president before the election of Ronald Reagan, and came, actually, after the inauguration. I told Alice I would stay with her until we got the reports out for the next year. Of course, Ronald Reagan was elected and came into office. I, quite frankly, didn't pay a huge amount of attention to what was happening at CBO after February of 1981 because the Reagan administration came in and canceled three or four huge grants and contracts that the Urban Institute had. We went from an organization of 350 people to an organization of about 160 in one year. [laughter] So I was feeling the Reagan policies in a different way. And then Alice, of course, stayed on much longer.

01-00:25:00

Sharma: You were focused on sort of maintaining some of the social programs with the Urban Institute. Was there a sense that Reagan's policies would, in effect, bust the budget? Or was there a sense that Stockman's—

01-00:25:17

Reischauer: I think, among the circles I operated in, there was a clear view that the tax cuts were way too large. One can argue the issue of the social cuts one way or the other. I don't think that's as clear an issue, because we needed some reforms. From my standpoint, I would have spent more on social policy if I were a politician, but I would have spent it in very different ways.

01-00:26:03

Sharma: Questions about the effectiveness.

01-00:26:04

Reischauer: The effectiveness of these things, yeah, and who's making decisions, and things like that. The fact is that Reagan might have cut taxes more than any previous president ever has, but he also raised taxes more than any previous president ever has. There are those who point that out and take a great deal of joy in pointing it out. But the vast majority of the taxes he raised, in effect, were really canceling tax cuts that he had approved the year before, before they actually went into effect. So it's not too hard to take cake away from

people who hadn't received the cake in their hands yet, and that's mostly what he was doing.

01-00:26:55

Sharma:

I know you weren't really centrally involved in any of these, but to what degree were Reagan's tax increases motivated by concerns about increasing budget deficits?

01-00:27:08

Reischauer:

Very much. I was part of the discussion in that. I think some of the people at OMB, the White House and the Treasury were very concerned about what they'd done. In a lot of these cases—and this goes for the Bush tax cuts, too—we label these things as the Reagan tax cuts or the Bush tax cuts. But there's a huge amount of the stuff that's in these laws that is put in by the other side. The Democrats larded up the Bush tax cuts. Child tax credits and things like that. We're now seeing another example of that as we need to extend the 2000 and 2003 tax cut. The Republicans have their set of things that they want extended. The compromise is, well, if we're going to extend your goody, how about approving my goody, too? So you get the piling on.

01-00:28:23

Sharma:

And there was a concern, let's say, about the supply-side—

01-00:28:27

Reischauer:

There is the supply-side idea. There were some reputable economists who drank the Kool-Aid and believed that the tax cuts would stimulate great economic growth. There are people who look at the Reagan era, starting in the depth of the recession, and say, good lord, look at this rapid growth. As opposed to, well, is that growth faster given the depth of the recession than the traditional recovery from a deep recession? And the answer is no, it isn't. Markets might be incentivized by low taxes, but they also worry about what's going to come when you've signed on to an unsustainable budget path.

01-00:29:23

Sharma:

Do you remember that being the concern at the time?

01-00:29:26

Reischauer:

No, I think they were surprised. Remember, we'd had this decline in the debt-to-GDP ratio that goes through 1974, bops around through the late seventies, begins to go up a little, and then it begins to shoot up during the Reagan period. People looked at the numbers and began to get concerned.

01-00:29:49

Sharma:

And this notion that there was a relationship between deficits and financial markets, i.e., interest rates, was fairly well-developed at the time? People saw a relationship.

01-00:30:00

Reischauer:

I think there was more feeling that that was the case then than there is now. It's all perspective. There's a whole bunch of people who look at this stuff and

say, look, we're running a huge deficit and we've never had lower interest rates. Look at the interest rates back when the debt-to-GDP ratio was falling and we were running surpluses. They were higher than they are now. At the surface level, you see nothing. You have to make a whole lot of adjustments. Even then, the case is not overwhelming, because there are so many other factors which you have a hard time taking into account. Do I believe, in general, that large deficits are going to lead to higher interest rates? Yeah. Can I tell you when? Can I tell you how much? Yes, but you shouldn't believe it. [laughter] I'd just be making it up.

01-00:31:08

Sharma: But at the time, in the eighties, at least—

01-00:31:10

Reischauer: There was some concern about that, yeah.

01-00:31:13

Sharma: I want to skip ahead to your second stint at the CBO, your tenure as director. How did you end up becoming director?

01-00:31:22

Reischauer: I became director after a two-year period when they were unable to agree on somebody. The House and the Senate leadership had different candidates. One group wanted to keep Ned Gramlich, who was the acting director. A super person who actually came to the UI the last year of his life. The others wanted to appoint Van Ooms, who at that time, I think, was the chief economist at the House budget committee. He was regarded as too close to the House, and by some people he was viewed as a staffer, and you don't appoint a staffer to a job at this level, of course. Van was a Rhodes Scholar. He was chairman of the economics department at Swarthmore. He'd been chief economist at OMB. He'd been chief economist on the Senate budget committee as well as the House budget committee. He'd been chief economic advisor to the speaker of the House. Objectively, I would say, if you give me a six as an economist, you'd give him a twelve. He's really first-rate. You could argue other things—managerial issues. There's different dimensions. Both he and Ned Gramlich were absolutely wonderful picks to head CBO. But they couldn't agree, because one group had put its money on one horse, and the other on the other horse. It's sort of what's wrong with our Congress. Finally, they said, we know Reischauer. [laughter] We can agree on him. Let's go out and get him.

01-00:33:28

Sharma: Do you think this dispute was petty partisanship? Was there a sense that the CBO directorship was—

01-00:33:34

Reischauer: It was not partisan. It was institutional House/Senate rivalry. They're both Democrats.

01-00:33:47

Sharma: Maybe I could rephrase it and say, over trivial issues rather than substantive issues.

01-00:33:54

Reischauer: Yeah. Oh, absolutely. Absolutely, yeah.

01-00:33:58

Sharma: Help me get a sense of what people thought about the CBO directorship. Certainly today, it's an extremely important position in the sense that it can really kill or facilitate the passage of legislation. Was there a sense that the CBO was such a gatekeeper at the time?

01-00:34:21

Reischauer: No. It was very important. What it said was important. We've had a president who, dozens of times has said, "Let's wait and see what CBO says" or "CBO says." People turn to it now. This is something that has grown, gradually, over the period.

01-00:35:09

Sharma: Although by the time you came in, certainly the leadership of Dr. Penner and then the discrediting of OMB under Stockman had raised CBO's profile.

01-00:35:20

Reischauer: Yeah. No question about that.

01-00:35:23

Sharma: Do you remember anything about the confirmation process that you went through?

01-00:35:27

Reischauer: There is no confirmation process. [laughter] You get all this mail. Elected officials or people who have presidential appointments are called Honorable, and so the letters say, The Honorable Joe Schmoe. If you've been an assistant secretary or you've been a member of Congress just for one term, you're Honorable from then on. I'd say half the mail I used to get was, "The Honorable Robert Reischauer." But I wasn't Honorable at that point, because there is no confirmation, because Congress is choosing you, so why would it have to confirm you?

01-00:36:06

Sharma: But any of the vetting process, perhaps?

01-00:36:10

Reischauer: There was hardly any. I met with a search committee for an hour or something, maybe. I knew all the members who were talking to me.

01-00:36:23

Sharma: And then when you got to CBO, what were your main goals? How did you find the institution?

01-00:36:30

Reischauer:

The institution had been through two years when it had had no director. An acting director can't really exert the kind of authority and push back strongly against people who are objecting to what CBO was doing on the Hill. Ned had stuck around for a year, but he said, "If I'm not appointed, I'm going back to Michigan to teach." He did. Then the individual who was acting director after that was Jim Blum. He was one of the first people we hired. He ran the budget analysis division, which is the largest division. It does all the cost estimating and the projecting of budget numbers. But Jim was, first of all, not a Ph.D. economist, had spent his earlier career at OMB in various places as a high civil servant, and rightly was risk-adverse. He should have been. There was a need for somebody to step up, hold the flag, and lead the charge.

01-00:38:00

Sharma:

Was this a question of, for instance, getting more money for your own operating budget to hire more staff?

01-00:38:05

Reischauer:

That's never really been a problem. By and large, my guess is that CBO gives money back every year. It certainly did in the previous years. It's not that it's awash with money or anything like that. It's a very sort of parsimonious life that the staff has, relative to some other agencies in town. That's really not an issue. The issue is lots of people are unhappy about what CBO is going to do. They call up and rant, and try and exert pressure in various ways. Sometimes it is members, sometimes it is bullying staff. There has to be somebody who will pick up the phone and say to a chairman of a committee, "Call off your mad dogs." Or, more likely than not, just call up and try to explain what the analysis shows and why it shows it that way. Members don't want to be called by some staff person or some acting person. They want somebody who they regard to be on their level.

01-00:39:35

Sharma:

So you saw this as a central function of the CBO director?

01-00:39:42

Reischauer:

It is. There's no question about it. You get the incoming [laughter] every day. Huge amounts of it. Then there's the allocation of resources. That's very hard to do when there's an acting person who comes out of one of the divisions. It's hard to reallocate resources if you think they're not being allocated correctly. Peter Orszag came in. He decided that health was going to be the issue, and he invested a huge amount of his time and resources building up the capacity that CBO developed to do analyses of health reform.

01-00:40:31

Sharma:

When you came in, what did you see as the major issues? Did you undertake any—

01-00:40:35

Reischauer:

This was so long ago. [laughter] We're talking about 1989.

01-00:40:40

Sharma: Let's think about it. There was a rising concern about the deficit, certainly, over the course of the eighties, the Gramm-Rudman-Hollings legislation being a central moment. That was sort of the operating principle to these caps—

01-00:40:54

Reischauer: We began doing lots of work on budget process. The various reforms that people had proposed. I built up this little group under Bob Hartman that focused on those kinds of issues. Phil Joyce, who I don't know if he's somebody on your list, was part of that group. A number of other people.

01-00:41:25

Sharma: So this was an attempt to understand how these pieces of disciplining legislation would impact budgets going forward? Is that right?

01-00:41:32

Reischauer: Yeah. We were rather skeptical about all of that. The idea that process can trump politics is kind of a naïve one, but many people believed it. We did a lot of work suggesting that this balanced budget amendment, whatever you want to focus on—line-item vetoes or things like that—were unlikely to be the silver bullets that solved the problems.

01-00:42:12

Sharma: Because politicians would inevitably find a way around these rules?

01-00:42:16

Reischauer: Yeah.

01-00:42:17

Sharma: And do you think by the time you got to the CBO, this had already been the case? I think they were already in the first year of Gramm-Rudman-Hollings implementation. There had already been some sort of budgetary gimmickry to adhere to the deficit reduction target.

01-00:42:33

Reischauer: Yeah. And talking about the incentives that exist in these things. You've got Gramm-Rudman-Hollings, and if you're a committee that does the right thing, it doesn't absolve you from being punished if the system as a whole doesn't meet its target. That creates, then, the feeling that the system is unfair. If you have that, then you're not going to comply.

01-00:43:04

Sharma: With this effort to build up the capacity within the CBO, was it to—

01-00:43:08

Reischauer: Strengthen also the fiscal policy division, which had weakened a bit.

01-00:43:17

Sharma: What did the fiscal policy division do?

- 01-00:43:18  
Reischauer: They do the economic forecasting.
- 01-00:43:20  
Sharma: The basic economic forecasting?
- 01-00:43:21  
Reischauer: Yeah, the basic economic forecasting.
- 01-00:43:25  
Sharma: Do you remember any innovations in forecasting procedures during your time as CBO director?
- 01-00:43:31  
Reischauer: It's been an evolution over a long period of time. There weren't any radical changes in how things were done. You want to build up the capacity of people with different perspectives. There are those who were more supply-side than neo-Keynesian or whatever. You don't want to find yourself criticized that there are no people except those from one school of thought. So there were some individuals hired who had differing views.
- 01-00:44:30  
Sharma: And this would have shown up in, say, different opinions about how to sort of score tax cuts? Say, the issue of dynamic scoring or—
- 01-00:44:36  
Reischauer: No, the dynamic scoring issue is a totally different one. We could go through why dynamic scoring isn't the right thing to do.
- 01-00:44:58  
Sharma: Maybe you can give me the one-minute version, if you have that. [laughter]
- 01-00:45:03  
Reischauer: You think tax cuts are going to incentivize the private sector to do something. But at the same time, tax cuts reduce revenues in the short run. You have to borrow more. Your offsetting effects are sufficient, in most models, in most analysis, to wash out whatever the positive effects are. It's not like somebody's coming in saying, we're going to do tax cuts but we're going to pay for them by eliminating expenditures that have no necessary positive effect on behavior of economic agents.
- 01-00:45:52  
Sharma: So this is something that is, on the one hand, sort of a political legend by conservatives used to beat up on budget estimators, and the other is too complex of a process to—
- 01-00:46:05  
Reischauer: Yeah. It's in fact impossible to do once you start doing it. If you're going to do it on the tax side, you should also do it on the spending side as well. And they don't want to do it on the spending side. This is ideology. It's not economics.

And if we had the models and we were sure we knew the interrelationships, I don't think anybody would object.

01-00:46:37

Sharma:

You've written quite eloquently, especially about experience in health care—I'm going to jump ahead a little bit—about the almost inherent complexity of the CBO's work, of budget estimating, and of estimating the impacts of specific bills. Do you ever have a sense that too much was asked of CBO? I'm thinking specifically about the health care legislation.

01-00:47:04

Reischauer:

CBO is going to be wrong. Anybody is going to be wrong trying to project the impacts of some of the major changes in taxes, entitlement programs, whatever. But the question that I would ask is, are you better off having a bunch of smart people, who know about as much as anybody does about these interactions, provide their judgment, or do you say, let a thousand opinions bloom. It's a little like weather. We have weather forecasters. A third of the time, they're wrong. Sometimes, they're horrendously wrong. But does that stop you from turning on the radio and listening to what the weather forecast is rather than going to a witch doctor or somebody who's totally uneducated on these things? No.

01-00:48:15

Sharma:

That's an excellent metaphor, I think. That's definitely true. But stepping back, with a case like health care, for instance, do you think it's problematic at all that legislators even look to budget forecasts? Certain pieces of legislation, from my perspective, should be considered on their merits independent of their budgetary impact, right?

01-00:48:39

Reischauer:

No. [laughter] I don't think so. There's a moral case for health reform, I think, which is compelling, but it's not the only thing. You and I could agree that everybody should have health care, and health care should be at a basic level, but if you came to me and said, "We can't agree on what the basic level is, so we're going to let that fly free, and this is going to ruin our economy," I'd say, "We're going to compromise on morality." It's an imperfect world and there's a lot of immorality that we tolerate because we're worried that the structure of society might be compromised if we adopt a particular solution..

01-00:49:38

Sharma:

It's an inevitably fraught process, right? Yes, I think you're absolutely right. Certainly we should consider trade-offs, so to speak. But that the CBO's projections could be used in such a way that they could kill pieces of legislation? You've spoken about it.

01-00:50:00

Reischauer:

I've given the speech about where would FDR and Social Security be if we had an analytical group like CBO who would sit down and say—when Social Security was enacted, remember, it was a very modest change. The benefits

were very small. They wouldn't be paid for a very long time after passage. We accelerated that a couple years afterwards. From that standpoint, I don't think CBO would have influenced the outcome. But what it would have said is, as this program matures, the vast majority of elderly people are no longer going to live with their children. In fact, huge numbers will be in Arizona and Florida, where their children can't take care of them. The social reaction would be—this is terrible. Are you kidding? I can't take care of granny; granny can't take care of my kids. You're destroying the extended family. And, of course, having experienced it and adjusted to it, our society feels just the reverse—the idea of having to have your mother live with your wife is unthinkable. [laughter] We'd go to the barricades to avoid that kind of thing now. But that was not the common, accepted social norm in 1935. I think we're a better world because of it.

01-00:51:56

Sharma:

But had there been, let's say, a CBO forecasting that?

01-00:52:01

Reischauer:

It would have undermined the support for Social Security tremendously.

01-00:52:08

Sharma:

I just want to get back a little bit to the process question. You were skeptical, and I think rightly so, as it turned out, about the impact of disciplining—ten minutes left on the tape—of disciplining legislation like Gramm-Rudman. What about the 1990 Budget Enforcement Act? Can you describe how you participated in that process, if at all? This budget summit at Andrews Air Force Base.

01-00:52:39

Reischauer:

One of the most amusing parts of the story is the number of people who say, there was a summit at Andrews and it solved the problem. If you go back and read your history, this started with meetings in the Capitol, which we had almost every day during the late spring and summer. These meetings got absolutely nowhere. Then there was suggestion that, we'll have a retreat and we'll go to Andrews. So for eleven days or something like that—usually started in the afternoon and went until one or two o'clock at night—we all went out to Andrews Air Force Base. That was no more successful. It fell apart. I actually made a bet that I won. Every night, we would have dinner at the officer's club at Andrews. They had a regular cycle of foods. It would be fish one night, Mexican food the next night, and so on. The best of the cuisines was the Italian food. Some of us were sitting around saying, "How long is this going to go on?" We're doing the same thing every night and going home at one or two o'clock at night. This is terrible. I bet a member. I said, "I bet you we go through one more Italian night." We had the Italian dinner and they announced this was the last night. [laughter] Anyway, it failed completely. What happened after that was a much smaller group—there were thirty, forty people around the table at Andrews. After that just the leadership— Dick Darman, [John] Sununu—and Republican and Democratic

leadership met in Tom Foley's office for about a week and put together a package. I remember coming into my office on a Sunday morning, I believe it was, because I'd been called and told that there was a deal. The computer printouts of the deal were in my office. I looked at them and I called up Van Ooms, who was the chief economist for the House at that time.

I called up and I couldn't believe it, quite frankly. I couldn't believe the Democrats had signed onto this package. And he couldn't either. Dick Darman had basically taken the Democrats to the cleaners. I said, "If this goes through, Tom Foley is going to be ridden out of town on a rail." But a day or two later—I forget what it was—there was the official unveiling or blessing of it at the White House. Newt Gingrich walked up the driveway and he got as far as the microphones and said, "Screw you. I'm not going along with this," and turned around and walked back and didn't participate in the ceremony with Bush. Then Newt and Dave Obey led the revolt in the House. They had to make this into a budget resolution. They led a revolt in the House and the budget resolution went down to defeat.

01-00:56:54

Sharma: With the original agreement?

01-00:56:55

Reischauer: With the original agreement. And then the Democrats had to fashion something that could get the votes of close to all of their members. So it went back in the other direction. The cuts in Medicare and the other social cuts were scaled back and the tax increases were raised, and a quote, "more balanced," in my opinion, plan came out of that. But it had nothing to do with what went on at Andrews. It had nothing to do with what went on at the summit in the Senate. We met in a room—I forget what building. Russell I think.

01-00:57:36

Sharma: Let's switch the tape, because I want to ask some more questions about Dick Darman and about the split within the Republican Party. I think it's fascinating.

01-00:57:46

Reischauer: Actually, the funniest person in all these meetings to watch was Sununu. He used to come to the thing in these leisure suits. As I said, I actually took a lot of notes on tapes on my reactions to this as well. He used to say that he looked like a larger appliance salesman from Sears-Roebuck, and the kind of person who, on Saturday night, would be selling you a refrigerator [laughter] in this leisure suit.

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02-00:00:05

Sharma:

Okay, this is Patrick Sharma here with Robert Reischauer. Tape two. So we were just speaking a little bit about the 1990 budget agreement. I wanted to get your thoughts about, first of all, the split within the Republicans.

02-00:00:20

Reischauer:

I think you raised this because you thought I was wrong about process. What the process changes basically did was enforce an agreement that had already been reached. It didn't force the policymakers to make an agreement in the future. That's what I'm talking about. Process can't force elected officials to do something that they haven't agreed to do already. The tragedy of what has just taken place, which I am terribly upset about, was that the president should have insisted that, for the extension of the Bush tax cuts, the other tax cuts (the payroll tax reduction) and extending unemployment benefits, we agree that that we will pass a deficit reduction package sometime in the next year, that will begin in '12, '13, '14—I don't care when it begins—that will cut the deficit by an agreed upon amount, divided between spending cuts and tax increases. The president should then pledge to produce a new budget within those broad parameters. And Congress could produce something similar.

02-00:01:44

Sharma:

The White House's failure to actually drive a bargain and get something out of it.

02-00:01:47

Reischauer:

Yeah, and at the minimum, to say, well, let's attach the debt ceiling extension to this. We're about to add a trillion dollars more to the debt by a whole bunch of people who say they want to balance the budget. It's like, okay. They're going to beat the hell out of the president and he's going to cave in April over the debt ceiling, when they've just done things that make it inevitable that you have to raise the debt ceiling.

02-00:02:35

Sharma:

But with respect to process, one of the legacies of the '90 budget agreement, and certainly the political will was there before this, but was the institution of PAYGO? Can you speak a little bit about this? How this came about and how you say PAYGO playing out.

02-00:02:49

Reischauer:

This is Dick Darman's legacy. Dick Darman was the champion of PAYGO and also was very much into the spending caps. Just to say a word about the spending caps, everybody says, oh, this was all so successful. It was successful because the Soviet Union fell apart. That's the only reason it was successful. Real domestic, discretionary spending rose over the period of the caps. What happened is defense spending fell like a stone. The levels of defense spending that we were at were unsupportable without the Soviet Union. We were very, very lucky. When I give my speech about how we

balanced the budget over the course of the nineties, first of all, I think the 1990 deal was huge, and the '93 deal has been way overrated, in large measure because the Democrats say, hey, we did it. It was tens of billions of dollars less than the 1990 one. Two-thirds of what we did was extend the policies that were in the 1990 version, which were set to expire after five years. We just added three more years onto them and they got credit for doing something, or we made them permanent. The Clinton one was quite modest compared to the Bush agreement. How did we succeed here, and how much of it should we pat ourselves on the back, and how much of it should we say, we were lucky? The answer is, I think we were lucky.

02-00:05:03

Sharma: With a growing economy.

02-00:05:04

Reischauer: The first thing is Soviet Union falls apart. The second thing is that we passed a bunch of tax increases in 1990, and then a few more in 1993, that were concentrated on the upper part of the income distribution, just at the time that that group of people got huge increases in their income. Then we had the stock market boom, which in fact was partially illusory [laughter] in retrospect. But we were able to rake the capital gains taxes in. How much of this is something we should be proud of? Then we went through a period where there was the managed care boom in health care. Health care spending moderated just tremendously over the period.

02-00:06:20

Sharma: Yeah, somewhat surprisingly.

02-00:06:25

Reischauer: In retrospect, pretty good for our system. [laughter] But nowhere near as great as the political budget historians claim that it was.

02-00:06:38

Sharma: How much, if at all, of the success would be attributable to the PAYGO rules? It seems as if it's a really sensible type of system.

02-00:06:48

Reischauer: It is. But remember the penalties of PAYGO are disproportionate and exclusively on the spending side. If you don't pay for a tax cut, you go and cut Medicare, farm price supports, student loans, etc. But a lot of this is psychological. If you ask, what's the role of PAYGO in moderating the growth of spending, one thing is that it stops stupid things from ever getting onto the agenda. There were many times that a member or a committee would ask for under-the-table guesstimate of what their new idea for a mandatory program enhancement was going to cost. This was all done pretty informally. And we say, "It's going to cost eight times what you think." So the proposal would die, or else be transformed into a much less expensive initiative. That just happened all the time to avoid violating the PAYGO limits. Members

didn't want to screw things up on the PAYGO scorecard and piss off their colleagues.

02-00:08:36

Sharma: So it did have that sort of moderating effects?

02-00:08:37

Reischauer: I think it very definitely did. A lot of people are looking for a reason to say no to constituents and to interest groups. They aren't all hugely enthusiastic about some of the proposals they introduce. They're doing somebody else's business or carrying the water for somebody else. If you can say, "I'd love to, but this will screw up the PAYGO scorecard" or whatever—

02-00:09:08

Sharma: It becomes much easier to say no.

02-00:09:09

Reischauer: Yeah.

02-00:09:11

Sharma: You just mentioned about George H.W. Bush not getting enough credit, and too much credit being attributed to Clinton in the '93 agreement. One of the reasons it seems this could be is that Republicans—at least the Republicans who are dominant today—have such a bitter taste in their mouths about the no new taxes reneging. Can you speak a little bit about the split within the Republican Party?

02-00:09:34

Reischauer: He made a big tactical mistake on that one. I've discussed this issue with him, but I don't want to violate confidence on that. What he should have done, rather than say, as he did, I made a mistake, this really wasn't the thing I should have done—he should have said, look, I'm president. You've got to make some tough decisions as president. We had, at the point that this was happening, 500,000 troops in Saudi Arabia and the Gulf, waiting to attack Kuwait and Iraq. We had an economy that was slipping into a recession. Third, the law of the land was Gramm-Rudman-Hollings. Under that law, which, as president, I have to enforce, the OMB will have to cut non-personnel costs in the defense department by 34 percent and discretionary non-defense spending by 32 percent. Or the Congress would have to say it was going to waive Gramm-Rudman-Hollings. They'd have to vote and I'd have to sign the waiver. Those were the options he had. He had no other options. He should have stood up and leveled with the people. I think he would not disagree. But then he got trapped saying that it was the biggest mistake of his career, etcetera, etcetera. That made him look weak. I think we're going through exactly the same thing here, with the way Obama has come out in the budget argument.

02-00:11:44

Sharma:

It's an interesting, disappointing type of comparison, but interesting. We don't have too much time. I don't want to miss certain things that I should ask you about. Let's skip ahead to the Clinton administration. There's a lot of interesting things I want to ask you about the 1992 election, where I think deficit reduction, for a number of reasons, becomes a forefront political issue. The Clinton administration comes in, and one of the things that we're trying to understand better about the administration is the embracing of deficit reduction as one of, if not the, primary economic goal of the administration. Do you know anything about this? We just spoke with Robert Reich, for instance, about his frustrations about deficit reduction being pushed to the forefront of the agenda as opposed to public investments and the like.

02-00:12:33

Reischauer:

The people that you want to talk to are Bob Rubin and Alice Rivlin. There was a debate within the incoming administration—well before it even came in—about what to do. They then put together a budget plan that would have gotten an A+ in a seminar at the Kennedy School or the Goldman School. Investment for the long term, short-run stimulus, and long-run deficit reduction. That's probably one or two balls more than you can keep in the air. That was the original compromise within the administration, reflected in the original Clinton budget. It didn't fly. It was too complex. You can't say, I'm focused on three different priorities, which seem, outside of a sophisticated seminar room, to be in conflict with one another.

02-00:13:48

Sharma:

Given the political makeup of Congress.

02-00:13:49

Reischauer:

Yeah. So then they had to go back to the drawing boards and come out with something that led to the 1993 package.

02-00:14:03

Sharma:

I think it's more myth than reality that, during the transition, the Clinton administration was confronted—Richard Darman confronted them with these more negative deficit reductions—

02-00:14:16

Reischauer:

That's a crock. You're telling me that nobody reads CBO reports? [laughter] It's sort of like, oh, good lord. The sun's going to rise tomorrow morning? Why didn't somebody tell me about this?

02-00:14:30

Sharma:

Right. Because CBO had actually, months earlier, come out with this.

02-00:14:33

Reischauer:

And there are other forecasts that people have. The people who were involved advising him knew this and didn't disagree with it. How do you back down from a bunch of campaign promises that you made that are unrealistic? The problem with our political system, and one reason I think it's so problematic

what we've just done, is that during campaigns you have to make irresponsible promises to get elected. We're going to have an election campaign in 2012 that isn't going to be about, how you are going to reduce the deficits. The unemployment rate is still going to be about 8 percent. The tax cuts will all be expiring. Everyone in this race will be arguing why the tax cuts need to be extended. But mañana, I'm going to bring the deficit down.

02-00:15:42

Sharma:

I'm amazed that the election is coming up so soon. It's true. Skipping ahead in the Clinton administration, back to the health care process with health care reform. I was just reading your article, "Confessions of the Estimators." One of the things that stood out to me was that it seemed as if CBO was tasked with doing so many things in scoring the various health care reform proposals.

02-00:16:14

Reischauer:

And capacity was nowhere near what it is today. It was very, very difficult.

02-00:16:20

Sharma:

You just talked about Peter Orszag's efforts to—

02-00:16:22

Reischauer:

Right. But the whole world has become more sophisticated. There weren't the people you can draw on now, who've been in this game for a long time, been thinking about the issues. New and better data, new and better models. That kind of thing.

02-00:16:39

Sharma:

Did you find it problematic at all? It stood out to me that your office was charged with both estimating overall budget impacts, but then also estimating specific components. For instance, how much premiums would go up, how many people would buy into the new plan, etcetera. Was that something that was unusual for CBO? To get into that level of detail.

02-00:17:00

Reischauer:

There's no way to do the overall impact without doing all of the details. It's just that health care is horrendously complicated social policy and part of our economy. There's lots of pieces that aren't well-connected together that can interact in very, very strange ways. It was terribly difficult. There was a huge confidence interval around whatever we came up with. The real innovation in what we did was a chapter in the book called "Other Considerations," which was basically about implementation issues, which, of course, there's no reason why CBO should have focused on at all. I was concerned that nobody was focusing on that. I wrote most of the chapter myself. It turned out to be very popular. The members of Congress just loved a chapter raising the implementation difficulties. We really didn't focus on them this last time around, but you think of the exchanges, and IRS having to communicate with fifty different exchanges when IRS Philadelphia office can't communicate with San Francisco IRS office. You're going to come in with your year-old tax return. I'm going to check it with IRS. I'm going to give you a subsidy based

on what your income was, but it's then going to turn out that, two years later, your income for the year isn't really what we thought it was going to be. Maybe your family status had changed because you got divorced, or your kid went off to college or something like that. Then there's going to have to be reconciliation. But you've moved to Texas. [laughter] How do I find you? Just thinking through these things—not a lot of that has been done. If you pass something and you can, once again, sit in the Goldman School and think of how it might work, but you think of \$20,000, \$35,000 year bureaucrat trying to adjust these things. You've got to say, hey, some of these things are impossible.

02-00:19:50

Sharma:

We're historians trying to tease out things that have already happened. It's hard enough. Estimating into the future is infinitely more difficult. With the remaining time, I just want to ask you a bit about moving to the '94 elections, and then your departure from the CBO. Were these related in any way? I'm not sure. I know your tenure came up.

02-00:20:11

Reischauer:

I was at the end of a term. I served half of one term and then a full term. If the Democrats had won, I would have been reappointed.

02-00:20:25

Sharma:

And would you have stayed on?

02-00:20:27

Reischauer:

Yeah. It's a great job. If you're somebody like me, it's like being a pig in mud. You have 535 people who think they're your boss, but in fact you have no boss. You're paid to tell the truth. And people have to listen. You can range over the entire landscape of public policy issues, really. You need the hide of a rhinoceros to not have sleepless nights after somebody has called you up, a member of Congress, and ranted and raved at you and said children are going to die because CBO scored their bill as too expensive or whatever. Which they did, on a number of occasions. Absolutely saying that kind of thing. And it's a terrific staff. A bunch of very dedicated, young, exciting people.

02-00:21:47

Sharma:

Let me turn it over. I have more questions, but with the time, I'm going to turn it over to Martin. Do you have any follow-ups?

02-00:21:56

Meeker:

We do this often. My one follow-up question is in relation to something that Dr. Penner said yesterday in an interview. We were talking about the degree to which the director of the CBO can occupy a bully pulpit on issues related to budget matters. He said that his understanding was that he couldn't speak out or take positions on policy issues, other than pro and con, but he felt like he could be an advocate for balanced budgets and against deficits. I'm wondering if this fits with your understanding of what your public persona, if you will, as director of the CBO was.

02-00:22:48

Reischauer:

I would agree with that, but it's analytically based, I would say, in the sense that if we were in a situation where the debt-to-GDP ratio was 25 percent and deficits were fluctuating up and down, I don't think there's any analytical reason why you can say this world is better than that world. We could run deficits so that debt-to-GDP ratio was flat through time or rose a little. Rose from, let's say, 20 percent to 35 percent, or declined and we had surpluses. I wouldn't think the CBO director should be saying one of these worlds is better than the other. Because then you're saying the tax level, or the types of programs we're spending on, aren't good, in a sense. On the other hand, if you look at something and say, if we continue on this path and it's going to jeopardize economic growth, it's going to lead to an unsustainable situation where financial markets are going to respond, then I think it's incumbent on the CBO director to point those things out.

02-00:24:26

Sharma:

The question that we're asking everyone as a last question, and it's to help us put our current deficit, or fiscal situation, into a broader historical perspective—you spoke earlier about the post-World War II situation of such a high debt-to-GDP ratio coming down through the fifties and sixties, and then sort of fluctuating before rising in the eighties.

02-00:24:49

Reischauer:

I see no problem with deficits—large ones, even—if they are caused by temporary situations. A war. Or if you came to me and said, we're running very large deficits and getting to a worrying point. But those are attributable to investment in our children that is going to make their lives better. Ending discrimination and other injustices that will make us a more equitable society, or cleaning the environment. So people will live maybe with less dollar-value income, but a better overall situation. You can justify deficits. But if we're running deficits just have one more party which has no positive repercussions for the future, it's irresponsible.

02-00:26:09

Sharma:

Do you think that our current situation is something that we should think about in broader terms, as something that's evolved from the 1980s to the present? There's another argument that this is something that's really new to the twenty-first century. That the budgetary problem was solved in the late 1990s.

02-00:26:29

Reischauer:

It wasn't solved, but we could have solved it in the 1998 to 2001 period, if Clinton and Bush had said—if there were some way to achieve this—we're going to take half of these projected surpluses, and give them back in the form of tax cuts or whatever, and we're going to take the other half and solve the entitlement problem. Because if you had some upfront money, I think you could do a lot over the long run. People are very myopic. You can buy them off with a transformation of the system, whether it was contributing a lot to

private accounts, have them highly regulated, or whatever. Or doing health reform that slowed cost growth. Then it would have been fine. The real issue here is democracy in an era where media has been transformed tremendously, and information is now personalized. Institutions like parties, for all practical purposes, have disappeared. We call ourselves Republicans or Democrats, but there is no party discipline. The party doesn't make decisions on who's going to run in various areas. There's no coherent policy that the party really endorses. Is this sustainable? We have a whole bunch of members of Congress maximizing over a two-year window. They can say almost anything. They can absolve themselves from accountability. There is always an easy solution, which involves no pain. If you don't promise painless solutions, the guy running against you is going to. This makes the functioning of democracy just very different from what it's been in the past.

02-00:29:01

Sharma:

It makes it very difficult to solve the budgetary issues.

02-00:29:03

Reischauer:

Budgetary. Yeah, right. Until the roof falls in. When the roof falls in, it's going to be very, very divisive.

02-00:29:13

Sharma:

Well, that's all we have. I think our time is up. I appreciate it very much.

[End Audio File 2]