Robert E. Rubin

Slaying the Dragon of Debt:
Fiscal Politics and Policy since the 1970s

Interviews conducted by
Martin Meeker
in 2011

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Audiofile 1:

This is Martin Meeker interviewing Secretary Robert Rubin for the national debt oral history project. Today is the 2nd of March 2011. And let me just begin actually by asking you a little bit about the Clinton campaign in 1992. I know that you participated as an advisor beginning fairly early on. According to your memoir, you actually met him a few years prior to that.

Well, I met him I think for the first time in 1991. But I really didn't get involved all that much in the campaign until '92. And even then, it was sort of a sporadic involvement because I wasn't involved in fundraising. But from time to time they would call. Somebody from the campaign would call, not obviously Governor Clinton, and they would want to talk about some issue that they were facing. And then every once in a while they would use what they call the group of economic advisors. They'd use this group to comment in the press.

Well, the first main statement that the Clinton campaign comes out with in regard to his economic agenda is the Putting People First book, right. We've talked to a variety of people who came into the campaign who were more interested in cutting deficits, were more fiscal moderates, who in hindsight are quite critical of that document. I'm wondering what you thought of that document when it was first released.

No, I thought it was a very good document. And basically, what President Clinton ran on was what he called the twin deficits. And what he said was, and I think he was right then, and I think it's still true, that if we're going to succeed as a nation we need to deal with our fiscal deficits and get back into a sound fiscal position. But we also needed public investment in education, infrastructure, basic research and the other areas that were critical for competitiveness. And the challenge was to do both at the same time and that was our challenge then and it's our challenge again now.

One of the main historical interpretations of the '92 campaign, of course, is that there were three main actors involved. Not only a sitting President, George H.W. Bush, and Bill Clinton, the Democratic nominee, but also a third candidate, Ross Perot. A lot of historians talk about his emphasis on debt and deficits as a guiding force throughout the campaign and perhaps having influence on some of Clinton's later decisions. What is your thought on the influence of this third voice in the campaign?
Rubin: Well, I actually think there was a fourth voice. Senator Paul Tsongas was a candidate and ran with a lot of focus on the country's fiscal deficit. And I think that his focus preceded, although I'm not actually sure about that, any of the others in that respect. Perot was certainly a major voice in the campaign. I don't think he had any effect whatsoever once President Clinton was elected. But I think Tsongas initially, and then Perot, helped effect the public environment and created a focus on and perhaps receptivity to addressing that issue. But President Clinton, or I guess Governor Clinton, more accurately, independently of either of those two voices, was very focused from the beginning on both sides of this equation. The fiscal deficit but also the public investment deficit.

Meeker: It's interesting. There's a variety of people involved primarily in the political sphere who say that there's no constituency for debt and deficits or, rather, for reducing debt and deficits. Do you think that the voice of Tsongas and Perot maybe changed the political equation in 1992 so that perhaps there was more of a public concern about, and maybe even understanding, of this particular issue?

Rubin: I think what happened in '92 was that you had had—really '91 and '92 but '92 was the election. You had had a period of troubled economic conditions in this country, including a recession. You had relatively high unemployment and there was a broad feeling, among the American people, that this was associated in some way, in some causal way, with our fiscal deficits and that became a broadly held view. I think in some measure a correct view. And I do think that that was a product of a lot of different voices. It was the media, but I certainly think Tsongas had a role in that. I think Perot had a role in that and I think, without question, Clinton had a role in that.

Meeker: In relation to the transition and the formation of Clinton's post-candidacy economic policy, I wonder if you can just give me a really brief overview of the role that you played on the Clinton transition team.

Rubin: I would say that on the transition team I played a relatively limited role, until we got to the point in very early January. I believe January 7th was the first date that we actually met with Governor Clinton, President-Elect Clinton as a group to focus on the budget. At that point, since I had already been named to be the incoming head of the NEC, I organized a meeting and I was the chair of the meeting, although I would say that the principal substantive participants were Leon Panetta, who was the incoming head of OMB and had been chairman of the House Budget Committee and really knew an enormous amount about the budget, which I didn't, and Lloyd Bentsen, who had been
chairman of the Senate Finance Committee. And then there were a number of economists. Laura Tyson, who was the incoming head of the CEA, Larry Summers, who was the incoming undersecretary of Treasury, Alan Blinder, an incoming member of the CEA, and Bob Reich, who was the incoming Secretary of Labor. All played an important role in those discussions. I had organized and chaired it because that was my role as head of the NEC, but I would say all those people played a very significant role in the discussions with the President-Elect.

Meeker: Given what you've already said about his focus on the twin deficits, there is also an interpretation that it wasn't until after he becomes President-Elect Clinton that deficit reduction perhaps moves to the forefront and that the deficit of public investment maybe falls behind a little bit. What is your interpretation of this analysis? Do you tend to agree with it?

Rubin: Well, there was a factual change that occurred sometime after the election, although I don't remember exactly when. And that is that the Bush Office of Management and Budget came out with their last set of budget projections. Dick Darman [was then OMB Director]. And they projected substantially worse deficits than had hitherto been the case. And when they did that, in order to get back into some reasonable place on a fiscal basis, it meant there needed to be correspondingly more focus on the deficit. But having said that, within the context of the deficit reduction program that the President ultimately moved forward, there was also a substantial focus on various areas of public investment. But what he did was that he made choices. He made decisions about priorities. For example, the earned income tax credit, which is really a remarkably good program for low income working people, was increased by something like 50 percent. Head Start was increased. National Institute of Health funding was increased, basic research was increased, of which NIH is part. Education was increased. But there were choices made.

Meeker: So choices were made. How surprising were those figures? Because from what I understand there were also CBO estimates at the time that weren't substantially different than what Darman and the OMB came out with. Did it feel like a shock to the transition team?

Rubin: Well, I don't remember CBO estimates, but I do remember that when Darman came out with his numbers, that was, if you will, the resident fact. And it was a very big surprise. It was a very big surprise to all of us and I remember we had to go tell President-Elect Clinton about it and he was not entirely pleased. In fact, he was very surprised and it clearly meant that we had to sit down and rethink our game plan.
Meeker: So it really was a transitional moment. It wasn't just a segue from one administration to another.

Rubin: Well, there was a segue from one administration to another, but within the context of that segue way there was a rather substantial surprise, which was the significant recalculation and re-estimate, if you will, of the projected deficits.

Meeker: There's also some debate, particularly put forth by people like Secretary Reich, about the influence of Alan Greenspan and the Fed on Clinton's fiscal policy, particularly during this period of time. The way that Reich remembers it, and there's, of course, some debate about this, was that Clinton was equally committed to deficit reduction as he was to public investment, but after Greenspan goes down to Little Rock in early December of '92, Reich claims that Clinton pivots pretty strongly toward deficit reduction instead. What influence did the Fed seem to have on the transition team?

Rubin: Greenspan did go down to see the President-Elect and he did talk to him about what he thought was the relationship between deficit reduction and interest rates. But I don't think that that was a major factor in the President's thinking. I think the major factors were his beginning point, which was this focus on the twin deficits, the change in the budget projections and then his own internalized view that the deficit was, as he referred to it, the threshold issue. And then the discussions we started having—I believe it was on January 7th during the transition—in which I think it was pretty much unanimous. I think there was actually unanimous view that we had to deal with this. Now, there were differences of degree in terms of how much different people thought we should move forward on deficit reduction versus other priorities.

Meeker: What was your opinion, then, at that point in time of how much of the deficit needed to be reduced? Were you thinking in percentage of GDP figures? What were the metrics that you were interested in applying to this particular problem at the beginning of the Presidency?

Rubin: I think at that point we thought of it primarily in terms of the absolute size of the deficit and then the deficit, as you say, as a percentage of GDP. And also, the trajectory that you'd have in terms of debt as a percentage of GDP. And we looked at it in all of those respects. As I remembered, at least, there were some people who felt that we should aim toward a point where the debt to GDP ratio stabilized. And then there were others, and I was in this group, that
felt that we should be on a path which, at least at some rate, brought, even if a gradual one, brought the debt to GDP ratio down.

Meeker: To zero or was that a goal at that point in time?

Rubin: Well, at that point, I don't think that any of us had plans that—in fact, I'm sure we didn't—had plans that got us to zero. But what we did do was to have a plan that would bring the deficit down and then there was the thought that health care reform could be the next major step in deficit reduction, since the federal health care programs are a major driving force in what were then and still are our fiscal position.

Meeker: Well, I want to ask you about health care reform and Medicare and Medicaid, of course. But maybe a few minutes about the '93 budget, because, as you said, this was the opening salvo, if you will, in the war against the deficit, at least as waged by President Clinton. If memory serves, and I'm hopefully not mixing up budgets here, but it was about fifty/fifty revenue increases and spending cuts to try to get—

Rubin: Correct.

Meeker: —an improvement in the budget situation at that point in time. In speaking with Bowman Cutter yesterday, and other people have said this, too, that there was never any question that the incoming administration wanted to raise revenues in order to address this problem. Yet fast forward to when it was passed. It was passed by one vote and that was the vote of the vice-president, which says to me as a historian that there maybe was a disconnect between what the White House expected to do and what the Congress was willing to do. I'm wondering if you can comment on the politics of moving from an agenda of raising revenues to the reality of the situation, that perhaps it was more difficult to do that.

Rubin: Well, when we put together the budget, the idea was to have half—as you correctly say, half spending cuts and half revenue increases. We wound up on the revenue side with an increase in the top, the absolute top bracket. And my recollection is that it affected 1.2 percent of income tax payers. And then we had a small increase in the gas tax, which came to something like, if I remember correctly, $35 a year for an average family of four. And then there was a small increase, very small increase, in the corporate tax. But that got portrayed or painted by the opponents of our program as an income tax increase. And I remember that in the next year, 1994, Dianne Feinstein, when
she was running for the Senate, re-election to the Senate, I should say, told me that when Californians were polled, 40 percent of them thought that income taxes had gone up. Well, it went up on the top 1.2 percent. So this thing had been very substantially misrepresented, if you will, by those who were opposed to it. And I think one of the lessons that I at least took from this, and I think President Clinton did was that we put it out and then we let our opponents paint the picture of it and we should have put it out with a full fledged program to make sure people understood it.

01-00:16:30
Meeker: Well, in hindsight, then, what would a program like that have looked like?

01-00:16:34
Rubin: Well, I think it would have looked exactly the same but I think what we should have done is we should have done a better job of making sure people understood what it was.

01-00:16:42
Meeker: I guess what I'm asking is, in hindsight, how would the Clinton communication team and agency heads and so forth have communicated that differently especially in the face of the emergence of right wing talk radio and the screaming that was happening.

01-00:17:02
Rubin: I don't know what our communication plan would have been, but in hindsight what we should have done is, as we launched this, we should have launched a full fledged communication program. What the specifics would have been I don't know at this point. But, instead, we let the opponents paint the picture of it and then we came back onto the field. But once we came back on to the field, they had already created a prism through which a lot of people saw this, albeit it incorrectly.

01-00:17:30
Meeker: This is maybe a sort of in the weeds quite of question. But it has a significance beyond its specificity. And that is one of the proposals for raising revenues was a BTU tax, which basically would have been an environmentally-oriented consumption tax. I'm wondering, from your perspective as heading up the economic policy team, what did you think of this? Was this something that was politically viable or toxic?

01-00:18:00
Rubin: The BTU tax substantively seemed like a very sensible way to get at an environmentally effective revenue raising purpose. And I don't think any of us realized at the time just how difficult that would be politically. And, again, it comes back to—you have relatively little public understanding, unfortunately, of a lot of these issues. And then the question is how effectively can you communicate and how effectively can you help shape public opinion. And I
think the answer in the case of the BTU tax—either we didn't do what we should have done or maybe it wasn't doable. I don't know. But in any event, we, as you know, had to drop it and replace it with the gasoline tax.

Meeker: So what were the forces then that were exerting pressure on the agencies or on the economic policy team to eliminate that as a possibility?

Rubin: Well, I don't remember the specifics of the BTU tax, but more broadly, there was a highly ideological opposition to any revenue increases. It was much stronger than any of us thought. Well, when you go back to the '80s. There were serious and responsible Republican voices for fiscal responsibility. I at least thought that when we came out with a serious program, even if they didn't agree on every piece of it, and clearly, no two people are ever going to agree on every piece of something like that, that some number Republicans would support us. Not a partisan comment, just a factual descriptive comment. We didn't get a single Republican vote in either the House or the Senate. And that may have been partly political and it may have been partly ideological.

Meeker: Well, that actually brings up an important point, because historians like to periodize, right. That's one of the things that we do. And '94 oftentimes is seen as a turning point, particularly in the Republican Party with the Contract with America and Newt Gingrich taking over leadership of the House. But it seems, based on a number of votes, it actually might make sense to look back to 1990 during the George H.W. Bush Administration and the passage of the Budget Enforcement Act that had the President going back on his “no new taxes” pledge as the point at which there was maybe a radicalization in the Republican Party. This would have had impact always, already, on the Clinton Administration before '94. What is your thought on this? When did the Republican Party change?

Rubin: Yes. I think it's a really interesting question. It's an interesting question that's highly relevant today, as well, because clearly there was enormous change. I remember Hillary [Clinton] once saying to me that the conservatives that we were facing were not the conservatives of the Eastern establishment, of rather some period past, whenever that was. How that process took place and when it happened I don't know. But I would say the nineties Andrews Air Force Base agreement, when Bush, then President Bush, Bush One, agreed to raise taxes despite his pledge not to do it was clearly a part of that process. On the other hand, that didn't occur in a vacuum. There was already, if you will, a context, a political context in which that occurred that generated a lot of opposition to what he was doing.
Meeker: Again thinking historically, a lot of people point to 1993 and the incoming administration and the budget that was passed as setting up the necessary preconditions for the budget surpluses at the end of the decade.

Rubin: I think that's right.

Meeker: But there's also, of course, other interpretations. Sometimes people go back to 1974 and the Congressional Budget and Impoundment Act, which created the Congressional Budget Office and set up the budget committees in the Congress and—

Rubin: Well, you can go back to 1789 and the creation of the Constitution if you want to.

Meeker: Okay. [laughter]

Rubin: No, I mean you can. But I think there are points that are particularly relevant in a more recent context.

Meeker: Well, let me then ask about the 1990 budget agreement because that established the rules by which later budgets were passed.

Rubin: Yeah, but the problem is it established rules and then what Congress did after that was to find ways around the rules by either using unrealistic projections of growth or, as they did with Humphrey Hawkins, for example. Humphrey-Hawkins bill [Humphrey-Hawkins Full Employment Act of 1978] was supposed to also create various kinds of constraints. They simply waived them. So that while I think 1990 did have certain importance in terms of the rules put in place, I think the first really serious deficit reduction program was the one that was put forth and then adopted in '93.

Meeker: So do you think that those rules that were implemented in 1990 positively constrained the work that you were doing in '93? Maybe help evaluate for me the impact that it actually had on the budget making process in that first year.

Rubin: I think it's hard to know but I think that if you'd had a president and administration that had not been committed to establishing sound fiscal
conditions, they would have found various ways around those constraints. I remember President Clinton saying to Leon Panetta at some point during the course of the creation of that first budget. He said, "If people want to argue with me about policy I'll do that all day long. But I don't want people to argue with me about my fundamental assumptions, about my numbers. So I want growth numbers that are realistic and I want technical numbers on health care increases and things of that sort that are realistic." And that really set a framework for the creation of the budget when we went forward. If a president had instead had the view, "I basically want to do whatever it is I want to do and I don't want to be constrained by the rules," you could have had a very different approach and the CBO of course would have come out with different scoring and you would have had all kinds of debates around that. But I think the fundamental factor in 1993 was President Clinton's commitment to restoring sound fiscal regime and I think that action in 1993 not only, in my view, was indispensable to what happened over that eight years with respect to our fiscal position, which did eventually become one of surpluses in '98, but also to what turned out to be a remarkable period in terms of economic conditions. A lot of other factors contributed but I think this one was a necessary indispensable one.

Meeker: Let me ask you a little bit about the effort at health care reform. I know you wrote about it in your book and you mentioned some of the factors that you thought contributed to its failure and other people have talked about this, as well, which is centers on the fact that it was kept a little too close to the central group of Ira Magaziner and a few others. But it also seems to me that comparing that health care reform effort with the one that recently passed, although of course there is some political fallout, brings up the big difference of the CBO scoring for the two initiatives. Right? Was it ultimately the CBO’s position on the Clinton health care reform effort that it was going to be expensive that doomed the effort? There were certainly other factors involved, right, but the CBO scored the Obama health care reform effort in a way that it would positively impact or reduce the deficit.

Rubin: Yes. They said it would reduce the deficit. There was certainly a difference, as you correctly say, in the CBO scoring. But I don't think that was the critical difference. This time around you had a president who had overwhelming majorities in both houses. And he had a party that was committed to supporting him in doing universal health care with cost constraints that some people think will be effective and some people think won't be. When President Clinton attempted to do health care reform back in '93, there was much less unanimity. There was a broadly held view that we should do something, in the Democratic Party, that is, but actually finding something people could agree on Congressionally was very difficult. Now, one difference was that President Obama relied much more on Congress in the drafting of the plan. President Clinton had his own plan which he then brought to Congress and that may
have made something of a difference. Also, you couldn't have passed a bill in '93 without Republican support, whereas they did do it here, basically, without Republican support.

Meeker: Do you think that perhaps Clinton would have come up with a better bill had the economic team participated more in the crafting of the legislation?

Rubin: I think there are a lot of questions around the process. But I frankly don't think that that was where the problem lay. I think the problem lay in the political environment. Also, he had already won a major victory but a very difficult victory with respect to his budget and there was a question of how much you can get done in a Congressional environment in any given period of time. The budget was a tough vote for some members, and asking people to take another tough vote on health care may have been part of it.

Meeker: Well, there's some interpretation that tough vote in '93 is a factor that led to the turning over of the Congress to Republicans. What is your opinion on that?

Rubin: I think a lot of things led to the '94 election results. I think there were probably some people who lost their seats over that vote. My own view would be that there were a number of other factors that contributed much more substantially. Gun control, which I think was the right thing to do, nevertheless I think pretty clearly lost quite a number of seats. But I think that maybe even more important than either of them would have been the health care bill. I think a lot of pieces of the health care bill made sense. There were other pieces that you could debate. But it was portrayed very negatively and ultimately the negative portrayal of it succeeded in the public domain. Remember the “Harry and Louise” ads?

Meeker: Yes.

Rubin: A very negative public view developed about this health care bill and I think that probably did more to paint the picture of the administration than any other single thing. And the other thing that the enormous success of the economy and of its economic policies hadn't yet really become visible to the American people. This was still relatively early in the administration. So that the political benefit, which was so enormous to President Clinton when he ran in '96, hadn't really started accruing yet at that point.
Meeker: Let me ask you about the '95 budget negotiations and the resulting government shutdown. So what point of the year did you become Treasury Secretary?

Rubin: Well, Secretary Bentsen announced he was going to step down just after the '04 elections, if I remember correctly, though he had told President Clinton before that, I believe. I know he told me before that and I think he told President Clinton. So I became Secretary sometime in early January. I don't remember exactly when.

Meeker: Okay. So at the beginning of '95, in time to participate in the fiscal year '96 budget.

Rubin: Yes.

Meeker: And you would have participated anyway given your previous position. That budget, the one that was initially submitted, was one of these "dead on arrival" budgets that was returned to the president and the team had to come up with a new budget. There's debate within the administration about the degree to which, one, that was a humiliating defeat or, two, that was maybe the beginning of Clinton's resurgence and his ability to wage a successful political battle against the new freshmen class of Republicans.

Rubin: Yeah. I don't think it was either one. I think what happened politically in '95 around the budget is, as you correctly said, he had a budget and it didn't get traction. But I think that the political turning point in '95 was something different than what you said. I think it was when the Republican-led House put forth their own proposal, which was to cut Medicare very substantially and then use the benefit of that to have a large tax cut that was pretty heavily oriented toward the most affluent. And I remember George Stephanopoulos saying to Larry Summers and me, "We're going to win this election in '96 based on what Newt Gingrich just proposed." And Larry and I said to George something to the effect that, "Well, this may be politically a difficult place for them to be but it can't be a turning point in terms of the administration or the election." Well, it turned out George was right because what the administration did was to frame it as the Republican led House want to cut Medicare in order to create a tax cut for the most affluent, which in fact was the substance of what that proposal was to some. They were sort of equal amounts, it turned out. And I would say it was that budget proposal that really gave Clinton, or President Clinton, rather, a place from which to work. And then, of course, the Republicans overreached enormously, first with the debt...
ceiling impasse, which they thought they were going to use to force President Clinton to accept their budget, but we found a way at Treasury to get around the debt ceiling and pass by borrowing for months and months and months and months from the public pension funds.

Meeker: Where did that idea come from?

Rubin: That's an interesting question. It wasn't me. It was a heck of a good idea because it basically took the pressure off President Clinton. Ultimately, however, led to the shutdown of the government, because once they couldn't use the debt ceiling, they then turned to the budgetary process and wound up not approving a budget so that the government shutdown, which wound up being—or turned out to be very unpopular with the American people.

Meeker: Well, it's reminiscent also of the way in which you used the Treasury to address the Mexican peso crisis. To view the Treasury as a more active instrument, an interventionist instrument also.

Rubin: In both cases we were highly proactive and in both cases we used bodies of money that arguably had never—one could argue had never been intended for those purposes. But we did have legal opinions from OLC, the Office of Legal Counsel, Justice Department, saying what we were doing was perfectly permissible.

Meeker: But to actually come up with those ideas is maybe the unique part.

Rubin: Well, the state stabilization fund was an idea. Again, it wasn't me who had the idea. But the idea had been around. But we thought it was more appropriate to do this with Congressional approval rather than executive action. But we couldn't get Congressional approval, so then we turned to executive action, which a lot of members of Congress were happy that we did because they didn't want to take that tough vote. Yet there was a feeling we needed to help Mexico in our own interest. And on this one, on the budget and borrowing from the pension funds, it infuriated our opponents but it staved off what otherwise would have been a very difficult confrontation.

Meeker: You had mentioned George Stephanopoulos—glee is maybe not the right word but—
Rubin: No, it was his political insight.

Meeker: political insight that he would be able to sort of craft a message come '96.

Rubin: Well, the administration would, yes. Well, not just '96. That in '95 they could craft a message that would put the Republicans on the defensive. And that would then carry forward and help them frame '96.

Meeker: So part of this message, though, included kind of a resentment of the wealthy and maybe a return to this Democratic tendency to infuse politics with a little bit of class warfare.

Rubin: No, I don't think so.

Meeker: You don't think so?

Rubin: No, I don't think so.

Meeker: Because it's clear in your book that you think that this is an unwise position for Democrats to take.

Rubin: Yes. And I don't think that was what this was about at all. I thought this was substantively right in terms of what we were saying and where they were was substantively wrong. The question was how you used it. And I think President Clinton, when he framed it and discussed it, didn't present it in a way that had, if you will, a connotation of class warfare. I think he simply said to people, "What this does is to reduce Medicare in order to provide funds which are in some fair measure being used to lower taxes for the most affluent." I don't think that's class warfare. It was a description of what it was and it was a view on his part that that's not what we should be doing, which I totally agreed with. Class warfare to me would have been taking that and presenting it with inflammatory language, which he did not.

Meeker: Okay. That's an important distinction.

Rubin: Um-hmm, I think so.
In the interest of time I'm going to move forward to the '97 budget agreement, because I know we only have a few minutes left. So this was the Balanced Budget Agreement of 1997, which precedes the balanced budget. I found it interesting. I don't know that you really mentioned it much in your memoir and I'm wondering if that was an inadvertent oversight or if it was maybe an indication that it wasn't as consequential, that everything that it was legislating [i.e. budget balance] had, in fact, already kind of come to pass.

No, it's not that it had come to pass, because the '97 agreement was important. But I think the key event was '93. Because that was where the country changed direction. It changed from increasing deficits. Look, even after the '90 agreement at Andrews Air Force Base, you still had a worsening fiscal situation. And as I think I mentioned, the budget that came out after that had unrealistic assumptions and didn't restore, but rather actually exacerbated our fiscal situation. The change in direction occurred in '93. No, I think '97 was important but that, it seems to me, followed in the wake that had been created by '93.

In what way, then, do you think the '97 agreement was important? What in the specifics of it?

Well, because it was exactly the specifics. That took us to the next step. And then by '98, partly because of the legislation in '93 and '97 and partly because there was a virtuous cycle so that you had deficit reduction that not only brought interest rates down, but also, very importantly and under recognized, but very importantly increased general business confidence and therefore in both cases contributed to investment. Then you had the new technologies and I think all of that had a virtuous cycle so that the policies contributed to deficit reduction. The deficit reduction contributed to growth and they fed each other. And then in '97 I think that that just carried it one step further. I think one of the mistakes that some people—not mistakes, but some people have tried to do is to figure out where did the deficit reduction come from, or ultimately a surplus and so on. It was a change in fiscal position. To what extent did it come from policy? To what extent did it come from growth? I don't think you can disaggregate that way because I think that the deficit reduction was indispensable in terms of the growth. I think it was all sort of one process that fed on each other.

And perhaps vice versa, as well, meaning that the deficit reduction or that the policy was made possible in some ways by the growth.
Rubin: I don't think it was made possible by the growth but I think the effect of the policy. The policy both had a direct effect and an indirect effect. And the indirect effect was to promote growth, which then fed the deficit reduction or ultimately created new surpluses—and then that fed further growth and so you had, as I say, a virtuous cycle.

Meeker: So in these '97 agreements, this comes after the shutdown debacle that clearly was a stain on the '94 class and Gingrich. In working with Congress to come about with this agreement, did it seem like there was a shift toward a more sensible, moderate approach amongst the Republicans that you were working with or did it seem that it was the same thing and they were just sort of biding their time?

Rubin: Well, two things happened. One is that after months and months and months of refusing to raise the debt ceiling, the debt ceiling was increased. Now, it was increased without an actual vote on the debt ceiling itself. There was a technical mechanism. Ultimately it got called the Gephardt Rule for some reason. But in any event, it was increased and they found a way to do it without requiring that members of the House to actually vote on something they didn't want to vote on, which was the debt ceiling increase. It was on something else and that was deemed to increase the debt ceiling. But the next real event in this particular scenario was '97, which was the balanced budget agreement. And despite the partisanship and all of the aspects of Washington that make it so difficult, the administration, the Democrats and the Republicans worked together in a reasonable way to produce the next serious step toward a sound fiscal regime.

Meeker: From your perspective, who were the main players who facilitated this? Would it have been like Senator Domenici or are there other people that you think were instrumental?

Rubin: In '97 I think Erskine Bowles was the single most important person. [Senator] Trent Lott. There were plenty of differences and there was a lot of back and forth and a lot of difficult but ultimately Trent Lott, Pete Domenici, obviously President Clinton. I'm sure there were others on the House side.

Meeker: Well, Kasich was heading up the budget committee.

Rubin: Yeah. He was a budget chairman. So he obviously played a major role.
But there's also some sense that he maybe had political ambitions and was at some point interested in derailing the process. Did you ever get a sense about that?

If that's so I wasn't aware of it, because if he wanted to derail it, I'm—well, could he have derailed it? I don't know enough about the Republican caucus to know. But he was chairman of the budget committee, so it put him in a very powerful position.

There was some Democratic objection to the '97 agreement because they thought that it was giving too much away. We talked about the opposition between the White House and the Republican caucus. What about the tension, for instance, in '97 between the Democrats in the White House and in the Congress? How, as Treasury Secretary, did you jawbone or try to discourage dissent amongst the Democratic ranks?

Well, there's always a problem when you try to get something around the center because you have—from the perspective of a Democratic President you have not only Republicans to deal with but you have some parts of your own party and clearly in '97 there were people who felt that we should—for example, who felt there were pieces of this we shouldn't have done. There were some members of Congress who felt we shouldn't have lowered the capital gains tax. I think we shouldn't have lowered the capital gains tax, but we had no choice because the only way you could make a deal with the Republicans was you wanted to get but you also had to give and that was something we had to give.

And the Democrats understood this for the most part you think?

Well, I don't remember the vote anymore but obviously enough understood so that we got a piece of legislation passed.

Okay. Enough understood. One last question. You departed government in '99 after the surpluses had appeared. I'm wondering, on the one hand, how did it—this is a strange question—how did it feel for the government to be in surplus? And then, in relation to that, there's this sense that there was an emerging fear of surpluses, that there were maybe dangers that were coming along with surpluses. Now that the danger of the deficit had passed, there was a new concern of the danger of surpluses and I wonder if you in fact saw that as a threat and, if so, what was the nature of the threat?
Rubin: Well, these were the first surpluses that the federal government had had since 1968. So it was the first time in thirty years. And the question that we faced in '98 was we wanted to use that for debt reduction. And the concern was that particularly Republicans, but others, as well, would want to use it for tax cuts. We thought the country was better served by using it for debt reduction. The trouble is, as President Clinton said, there are so few people who understood the substantive dimensions of doing that that we had to find some way to explain this to the American people, to enable us to preserve it for the purposes that we wanted or that we thought was best for the country. And ultimately we came up with the idea of framing it in terms of saving social security. If I remember correctly, our framing of it was something like save social security first or some such thing. I don't think at that point anybody was concerned about what you referred to as the danger of surpluses.

Meeker: I think Greenspan mentions it in his memoir.

Rubin: If he does, I don't remember it. When President Bush proposed his first tax cut, then there were people who said, "We have too many surpluses. Once we pay down all our debt, what are we going to do?" I wrote an op-ed for the New York Times and the point I made was that that's a high class problem. If you get to that point, rather than do a tax cut now, this was now 2001, which was after Clinton was gone—instead of doing a tax cut now because you're concerned that we may have surpluses that we won't know what to do with, why don't we wait until we pay the debt down. And then, in fact, if we have—because a lot of things can happen and those surpluses can disappear and economic conditions can move in directions that aren't anticipated. Once we have paid down our debt, if we still have surpluses that's a high class problem and we can decide we want to have tax cuts or we can decide we want to invest in education or do whatever. But, of course, by the time you got to 2001, tax cuts won the day.

Meeker: And deficits returned.

Rubin: Once the 2001 tax cut was passed, which also most heavily favored the affluent—that's nothing to do with class warfare. That is a factually descriptively accurate comment. Doing that I think really undermined the always fragile political coalescence around the very difficult matter of fiscal discipline and we moved forward into a terrible period fiscally.

Meeker: All right. Well, sorry to end on that note—[laughter]—but that is, alas, where we are. Thank you very much.
[End of Interview]