Governor John H. Sununu

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

Interviews conducted by
Martin Meeker with Patrick Sharma
in 2011

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Today is the 19\textsuperscript{th} of February 2011. This is Martin Meeker interviewing Governor John Sununu for the history of debt and deficits project. Thank you so much for joining us today. I'd like to actually begin prior to your involvement in the 1988 campaign and ask you a little bit about your period of time as governor of New Hampshire, recognizing one of your main accomplishments was dealing with the state budget deficit and doing so in a way that you were able to get some bipartisan support for your efforts. I want to know if there were any particular lessons that you gleaned from your experience in the State House that you maybe carried with you into the Bush administration.

It's interesting you ask that. I did. I came into office in the '82 election, I think primarily because the public recognized that my predecessor had generated a huge deficit and we committed to fix the deficit without, in the New Hampshire tradition, without a sales tax or an income tax. I served three two year terms. We generated six surpluses. You learn how to get into the weeds of a budget, which is probably the biggest lesson. The political coalitions you develop to pass a budget at the state level are very different than the federal level. The key to budgeting, in my opinion, is to get down into the details as far as possible. That the decision-makers should understand the details as much as possible because, frankly, every department and everybody who's contributing to the development of a budget, even though they're directed to cut spending, is working awfully hard to figure out how not to. In budgeting, in developing budgets for states and the federal government, knowledge is power.

Well, it sounds like you're giving evidence for the truth of ferreting out waste, fraud and abuse as a real means to actually bring budgets into balance.

Waste, fraud and abuse is a bad label. It's not waste, fraud and abuse. It's bloat. Waste, fraud and abuse has a connotation of something nefarious. Bloat is just sloppiness and inefficiency.

And so your sense is that you were able to bring the budget into balance or remove the deficits, at least, by—
Let me give you a better example. Before I became governor I chaired the finance committee at Tufts for five years. We discovered in that process that everybody, every department, had an account for teletype paper which grew every year. That was there even after we had stopped using teletype paper for ten years before that. So it's an anecdotal example of what happens in state government, in private sector bureaucracies, in public sector bureaucracies. People tend to take what has been negotiated as an allocation for some legitimate purpose and continue to grow it even after the purpose for which it was allocated fades away. And the art form of efficient budgeting is to know how to go in and find out what is really necessary and what is no longer necessary.

Very good. Well, let's move to the 1988 campaign. The accounts that I've read make it pretty clear that your support of George H.W. Bush in the New Hampshire primary was key, especially given the troubles that he had in Iowa prior to that primary. How was it that you decided that George H.W. Bush would be your candidate? What was it about him or his positions that particularly attracted you to work so hard on his behalf?

It goes back to the 1982 election. In my 1982 election, I was certainly not the favorite to win the primary in New Hampshire. Unlike our presidential primary which is in March, our regular election primaries are in September, just before the November election. So I ended up winning the September primary, having gone through a very tough primary campaign. Needed to raise some money to run against the incumbent Democrat. I picked up the phone and called the sitting vice-president, asked him to come up and do a fundraiser for me. Eleven days later we had a fundraiser that allowed me to raise the money to run a decent campaign and win. I developed a good relationship with the vice president that grew over time as I as governor, sitting governor, had to interact with President Reagan and Vice President Bush for six years. So you get to know people. And frankly, a great deal of politics is still personal relationships.

I wonder about issues. You were known as on the more conservative side. He had a reputation as a moderate. Were there particular issues that you diverged on? Were there particular issues that you saw really eye to eye on?

I think on substance, on the role of private sector, on taxes, on spending, on keeping government down in size. George Bush was much more conservative than he gets credit for, so I didn't feel a discomfort at all.
Meeker: Okay. I wonder if you can give me a sense, based on your work with Bush during the 1988 campaign, the degree to which he was establishing himself as different from or a continuation of Reagan's policies that were developed in the 1980s.

Sununu: Well, the art form of politics is to be able to do both. And I think that actually is what the '88 campaign was all about. Certainly under Ronald Reagan the world had begun to see the US national security position coming to a point where the Russians, the Soviet Union, actually was beginning to show a little bit of wear and tear and so on that aspect, particularly with his own personal foreign policy experience, George Bush was trying to be the continuation of the Reagan legacy. And yet every candidate wants to be seen as their own man, their own person. And so he tried very hard also to be seen as not merely a rubber stamp or a carbon copy of the past. So it's an art form to try and have your cake and eat it, too. And obviously he won the election, so I think he succeeded.

Meeker: Some might say that it was on matters of fiscal policy that Bush tried to make himself distinct from Ronald Reagan. I know that reading through various accounts since then, and newspaper accounts during the time, there was the sense that there were some excesses in the 1980s, particularly resulting in the increasing budget deficits that needed to be addressed during the next presidential administration. To what extent did you see Bush positioning himself with regard to that issue?

Sununu: I think what made the 1980s a complicated time for budgeting was that they followed the Carter administration explosion of inflation. If you remember, we had interest rates up into the twenties. A stagflation period of time where we had inflation with a stagnant economy. And interest rates went out of sight. They just strangled the growth situation so that coming in after his 1980 election Reagan inherits this stagflation environment. It was really probably the first period of time in which that pairing combination came together.

Meeker: Stagflation, low growth and inflation?

Sununu: Low growth and high inflation. And that combination made it a very unique period of time for budgeting. They tried to move that economy forward with the tax cuts and I think the evidence is that the tax cuts did get the economy moving. But in combination with that, they continued the growth of defense spending, which had been wound down quite a bit under Carter. So the combination of tax cuts and defense spending really created a mini-crisis in
the early eighties on the budget. That was followed somewhere in the mid to late eighties, as I remember, with an effort, bipartisan effort, Gramm-Rudman-Hollings. Everyone leaves Hollings off the Gramm-Rudman. But Hollings was the Democrat that came in and supported a strategic commitment by the budgeteers that on a bipartisan basis they would establish a formula that would bring the budget down. I don't remember when that was passed but I know it had three or four years where it functioned reasonably well.

When Bush was elected, it was sort of the tail end of Gramm-Rudman-Hollings. I think it had a five year life. I don't remember for sure.

Meeker: Well, it was passed in '85.

Sununu: In '85. So I think something was due to happen in '90. And so it was in that context that certainly an awareness on the part of Congress and the executive branch that the budget problems were real problems. They had agreed to Gramm-Rudman on that basis. But also a recognition that they probably had to do things a little bit different in the nineties, late eighties/early nineties, than had been done in the early eighties because it was just in a different economic situation.

Meeker: Meaning that the options for continuing to increase defense spending and cutting taxes were maybe no longer as viable as they were at the beginning of the decade?

Sununu: No. Meaning that you ought to design your budget policy to reflect what's really happening in the economy now rather than what was happening in the economy ten years earlier.

Meeker: Okay. Well, as far as a budget policy developed by Bush, of course the most famous element of that was his “no new taxes” pledge. I wonder if you can give me a sense of the degree to which you, as one of his advisors, were aware that he was going to make this pledge, and what did you think about the wisdom of—there's different ways of saying no new taxes, right, and he maybe went to the furthest extreme of intensity, I guess.

Sununu: Yeah. Look, I made my reputation in New Hampshire on no new taxes. No income tax, no sales tax. It's sort of a genetic requirement in New Hampshire. And so I understood that when you did that you still had to, at the very least, operate in an environment where fees get adjusted for inflation. So I have always been careful on my campaigns to make sure that I make my
commitments on specific taxes. No income tax, no sales tax because it's almost impossible to sign an appropriations bill that doesn't have some increase and a fee or a minor tax that reflects just the change in environment and change in climate, change in inflation. So politically you have to be careful for that. So I frankly didn't know what the final words were going to be in the '88 campaign and when I heard that I got a little bit, "Okay, now you're going to have to live up to it," kind of a feeling. But at least not that night, the night of the acceptance speech at the convention, I didn't have a premonition then of how serious that issue was going to be. But it turned out to be a big issue.

Meeker: Do you remember having conversations with other advisors who were working on his campaign? Were there some people who thought, "Yes, this is where the rubber meets the road and that we're not going to do this," or a concern that maybe this would cause some problems down the road?

Sununu: Well, I think Dick Darman understood that it might be a problem. I think Nick Brady understood it would be a problem. I had a feeling Jimmy Baker may not have felt about it as significantly as they did. But I don't think there was much thought given in that time frame, the time frame of writing the acceptance speech, on the impact that the definitive character of those specific words would cause later on.

By the way, let me say now, those caused a problem not because it couldn't be done. That's a fallacy. Those caused a problem because it gave the Democrats a, "We're not going to let him do it," line. And that's in fact what happened in the budget. The Democrats chose to have taxes not because we needed them but because they wanted to burn Bush on having said that.

Meeker: I don't know what the sense was in 1988 about the possibility of Republicans taking over either house of the Congress. It would make their budget, the Republican budget agenda, a little easier, right, than it was in facing—

Sununu: Yeah, but the numbers were really bad at that time. We ended up with 175 in the House and I think forty-three or forty-four in the Senate. And I don't think there was any anticipation that we would have had significant gains.

Meeker: So thinking of the political calculus, and understanding that if Bush was elected he would likely face a Democratic dominated Congress in both houses—
Sununu: But that's exactly the point. The point was that any justification for saying that was based on feeling that a budget could be created that met that requirement without giving sufficient thought to the political benefit of the Democrats denying him the capacity to do that.

Meeker: Okay. So Bush is elected in November of 1988. And you had mentioned that there was, of course, this—emerging very early on this kind of stalemate between the Democratic Congress and the Bush White House.

Sununu: But actually that's not where it starts. Remember, the first big issue, I think the first few days we were there, we get a visit from an assistant secretary of Treasury that says, "I have to come and talk to you about the savings and loan situation." And so we started having meetings on the savings and loan crisis which went from a $9 billion dollar to a $20 billion problem to a $50 billion problem to what was eventually a $180 billion problem. So right off the bat, something which I don't think had been mentioned, that I ever recall having been mentioned in a campaign, is the first item on the table in terms of budget. So that is sitting there. But accompanying that is the economic slowdown that reflects both the cause and the effect of the savings and loan crisis. And that wasn't baked into the pie ahead of time. So that's the first situation that comes forward.

Meeker: And maybe I would add that in addition to that you also have to deal with the Fed. Certainly after Alan Greenspan is appointed, and then you have this 1987 stock market scare. It comes back pretty quickly. But—

Sununu: The chicken tightening. [laughter]

Meeker: Yeah. What'd you call it? The chicken tightening?

Sununu: Well, he got chicken after that and started tightening rates in response.

Meeker: Well, and he also made it pretty clear that he thought some of the trepidation on Wall Street had to do with concerns about increasing deficits in a tightening credit market. And so that it was clear in his public pronouncements that he was going to be looking very closely for the next Administration to address the deficit in a really forthright and direct manner. So it sounds like you have the savings and loan crisis happening right away. You have a Democratic dominated Congress but you also have supposedly—
Sununu: Public concerns from the Fed.

Meeker: Concerns from the Fed. Even though Greenspan is a loyal Republican, he also has his focus on something other than the political viability of the White House.

Sununu: But it was more than that. What was happening to Greenspan, in my opinion, is that the central bankers, European, particularly major economic countries, central bankers, in what I consider a posturing position because they certainly didn't tidy up their own situations any better, were putting pressure on, through the G7, G8 meetings and the international meetings, that the US really had to fix its budget. And, in fact, they were the ones that were starting to talk about a requirement for the US to have a multiyear budget. The big problem with the budget agreement was that we had to negotiate a multiyear package. All we've talked about, plus that, I think were what began to set the tone for a tough environment in a tough climate.

Meeker: It's interesting. I went back and looked at some of the newspaper articles even, I guess, during the transition period, even before the—

Sununu: Don't believe what you read in the news.

Meeker: [laughter] Well, that's why I've got to ask you. You get to contest it. And this is sort of a dangerous approach but I'm kind of reading between the lines of these newspaper articles. It seemed like there was a sense, even before the inauguration, that, well, maybe the no new taxes pledge wasn't firm or permanent. Maybe it was just going to last for the first year of the administration and then they would have to reconsider issues down the road.

Sununu: Well, you're always going to get some of that. But there was no serious internal discussion of that that I recall.

Meeker: At that point in time.

Sununu: Yeah.
Okay. Well, let me actually ask you about the team in the White House that was established, in particular the economic team, and how you interacted with each of these individuals. It seemed pretty clear that perhaps the most important individuals, part of the cabinet that you would have worked with on this particular issue would have been James Baker, who was over at State by then but former Treasury Secretary.

Jimmy didn't work on the budget.

He didn't?

No.

Okay. He wasn't involved in this even though he was former Treasury Secretary?

No. He was up to his eyeballs trying to save the world. If you remember, this was the period of time with NATO. We had to come back and in essence put on the table the dramatic reductions in NATO in Europe, the tremendous things that were happening in Poland. We're almost about to see the collapse of the Soviet Union. So Jimmy was really focusing on that. Nothing at all to do with the budget.

Okay. Well, then you had Treasury Secretary Brady and certainly Richard Darman at OMB.

And Michael Boskin.

And Michael Boskin at CEA.

Those were the three principal characters.

Sure. Can you characterize your working relationship with them?
Actually, it was quite good. It was a very collegial team. Doesn't mean there weren't arguments but it was a team that felt pretty comfortable with themselves and with each other. And it was a pretty smart team. There was no misunderstanding of quantitative needs in that team.

Did you have a regular sort of established working group? Sort of like what Clinton established with the National Economic Council within the Bush White House?

I don't remember if we did anything formally, but we certainly functioned that way. I don't know if it had a title. But we certainly functioned that way and Darman took the lead on the details and Boskin took the macro economic lead. The impact of doing this versus the impact of doing that. Darman did the details of counting the pennies and Nick was really very much involved in putting into context the impact this would have on the markets.

So he was the Wall Street guy?

Yeah. By virtue of background and relationships and personal inclination.

What was your role in this group?

Making them all work together. [laughter]

[laughter] Okay. What were some of the challenges involved in developing Bush's fiscal policy in this regard?

I go back to something I said earlier. I don't think we appreciated early on how clever the Democrats were going to be in taking that phrase, "No new taxes," and really drawing lines that made things very, very difficult. They were not going to let the president have no new taxes and we didn't understand that at the beginning. That that was an uncrossable line for them. So we started putting together rational budgets and couldn't understand the difficulty we were running into.

Difficulty negotiating with Democrats?
Sununu: Negotiating, coming to an agreement. Life was made a little bit complicated by the President's perception that he had a great relationship with Dan Rostenkowski, who was chairman of House Ways and Means. And Rostenkowski would come over and say he was going to help, but frankly, and I'm not even sure if President Bush to this day understands it, he never really helped. He would say nice things in the Oval Office. A lot of glad-handing, a lot of camaraderie but really never delivered. That also had us not understanding what was happening for a while.

Meeker: Well, I think it was probably late '89, early '90 when Rostenkowski comes out with his own budget proposal that involved tax increases.

Sununu: Yeah.

Meeker: Did this take President Bush by surprise?

Sununu: But that was after a long period of time of trying to work with him. And I don't think it took us by surprise in the short-term. We had an inclination he was going to do it. I think he came over and actually told us he was going to do it a few days before he did. But that really ended up being the vehicle for them affirming that there had to be taxes. And I think he included a big gas tax in that, if I'm not mistaken.

Meeker: A version of which was ultimately passed.

Sununu: In the package, yeah.

Meeker: It's interesting. So you kind of look at the budgeting prior to 1990. Well, you come in in 1989, right, and it's still sort of a continuation of the Reagan budget. There's a question about the degree to which President Bush wanted to put a stamp on it or not. But during that period of time this was under the Gramm-Rudman-Hollings regime and in order to prevent the sequestering, the automatic tax cut or the automatic spending cuts—

Meeker: You would have had to reach a certain budget milestone and it seems like there was agreement across the aisle that that wasn't possible to do without raising taxes in that budget. But—

Sununu: We submitted what we thought would take care of it and then were kind of shocked that CBO came back and said we hadn't met the criteria.

Meeker: Huh. So that happened in '89?

Sununu: CBO came back and said we hadn't met the criteria. And I don't really remember how that got rationalized out but it did get rationalized out so that we dealt with it.

Meeker: It seems like, even going back to the campaign period, after he makes President Bush makes a no new taxes pledge that in order to, one, not break the pledges that were part of Gramm-Rudman-Hollings and yet also not raise taxes, there was like a really sort of blue sky maybe attitude about economic growth. That it seemed like the policy was going to be—

Sununu: No.

Meeker: The country would grow out of the deficit problem.

Sununu: Well, you always analyze growth and there was an assumption—obviously assumptions on growth. But I go back to what you really have to understand is the fundamental point. You could have, we could have, we actually did put on the table many times, budgets that addressed the deficit without new taxes. You're not economically unable to do it, you're politically unable to do it. And the White House was willing to take the political pain of a budget with spending reductions appropriate to allow it to happen without the new taxes.

Meeker: What were some of these proposals that were on the table that would have—

Sununu: Oh, I don't remember the details.

Meeker: Yeah. Was it like Social Security or entitlements?
Sununu: There were some entitlement reductions, because if you remember the final package actually ended up with some entitlement reductions. So they were in our package to begin with. Not a reduction in the spending, but a reduction on the growth on the defense budget. But I don't remember the details. It's twenty years ago.

Meeker: Sure, sure. Yeah. And those details, of course, are part of the record.

Sununu: But I really want to dwell on that distinction.

Meeker: Sure, okay.

Sununu: We were not unable to build an economic package that worked. We were unable to build a package that the Democrats would accept. And my argument is that the reason they wouldn't accept it is they had made a decision to accept nothing that had no new taxes in it.

Meeker: Was there any concern at the time, though, that cutting spending by the federal government would have perhaps exacerbated economic troubles?

Sununu: No, there really wasn't. This was an administration that was committed to cutting spending.

Meeker: And maybe you can sort of then walk me through from your experience of it how you go from, in 1990, the spring of 1990 when Bush submits his budget that originally didn't include tax increases to the passage of the budget in that fall that included tax increases but also a revised budget process, which is maybe even historically more important.

Sununu: Yeah. Obviously the White House submits their budgets. They address the obligations of dealing with the deficit without taxes. The Democrats don't like it. They argue that they don't like it because of some of the places we cut spending. And I don't remember the specific ones we had difficulties. We had endless four on four, five on eight meetings with the leadership in the House in particular. With Rostenkowski, with speaker O'Neill. Not O'Neill. Foley. Tom Foley was speaker, right? Yeah. Foley. With George Mitchell on the Senate side.
Meeker: Leon Panetta?

Sununu: No. Panetta wasn't involved really. Mostly on the House side, though, because the House leads, as you know, under the Constitution with the budgeting. But Mitchell was a surprisingly active participant from the Senate side, even in the early interactions. And I actually think that Mitchell was the one that drew that line sharper than even the speaker did. But the process kept having stalemate, stalemate, stalemate. This is rejected, that's rejected. So then it was agreed to go to Andrews [Air Force Base] for a series of meetings there.

Meeker: A summit.

Sununu: The summit. And actually, the summit did produce an agreement. And here's where the important below the radar screen level of history comes in. I had sat down with Phil Gramm representing the Senate side and Newt Gingrich representing the House side and said that I agreed with them that we would not come to an agreement that they didn't feel comfortable with. We finally get to a point where we have an agreement with the Democrats on the package. I go to Phil Gramm and I ask him if he can live with it and he goes and consults with his folks and comes back and says yes. I go to Newt Gingrich and I go over. Obviously they were part of the process so they knew where we were. I go over it and I say, "Are you comfortable with this?" and Gingrich says yes, he'll support it. And then Gingrich goes back and talks to some of his people and not all of his people are going to support it. Well, we didn't know that.

Meeker: Do you recall what their objection was based on?

Sununu: Some of the taxes probably. I think particularly the fact that it didn't have a capital gains tax cut.

Meeker: So they were all right with a certain level of tax increase?

Sununu: Oh, yeah.

Meeker: But they also wanted a gains tax cut which would have helped revenues presumably.
Sununu: According to those of us who understand dynamic scoring. Yes.

Meeker: Yeah.

Sununu: Dynamic. But Gingrich goes back and doesn't make us aware early enough that he's not in favor of it now after having said he was. And my agreement was to touch base with Phil Gramm and Newt. Not exclusively. We'd talk to everybody. And on our side, at that point, when I went through that conversation with them, everybody was supportive of the package. In fact, the hardest one to get a yes from was Bob Packwood and I sat down with Packwood and went over the package with him and finally he felt comfortable and supported it.

Meeker: Do you recall what his objections were?

Sununu: I think some of the cuts, but I'm not positive. I'm not sure of that. But I do remember the sequence of working it out. And then at that point we thought we had everybody's agreement so that the White House then says that it agrees to the package. And within a day or so we're finding out what Gingrich is now saying he won't support it and has gathered a group of House Republicans not supporting it. And that was the beginning of the unraveling.

Meeker: How was that received in the White House?

Sununu: Well, I can tell you it was received by me in a very pissed off mood. Obviously, nobody was happy with it. Look, we fulfilled our commitment of touching base and getting approval and then to go back and change your mind is, in my opinion, just unconscionable.

Meeker: Do you recall how the White House found out about Gingrich's change of ideas? Did he contact you personally?

Sununu: No.

Meeker: Or was it through the media?
Sununu: I started hearing stuff in the media first and I think I called him and then found out on the phone that he wasn't going to support it. And I said, "But you told me you would." He said, "Well, we're not going to support it." So anyway, that then gives the Democrats tremendous leverage and they start taking out of—it comes to a vote. I think the coalition of Democrats plus the bunch of Republicans that Gingrich got clearly defeats it and so now the Democrats say they're going to put their own package together. Basically put their own package together. We do have some interaction in the process but not very much. But our leverage is gone at that point.

Meeker: Were there any Democrats in this process you felt comfortable working with?

Sununu: The President felt comfortable with some of them. I didn't.

Meeker: Okay. Well, you had mentioned Rostenkowski, you felt comfortable with?

Sununu: Yeah. I, frankly, by that point had become, I think, aware of what I felt was the political agenda in the game. I think the President never quite accepted the fact that he was getting jobbed, but he was. So anyway, at that point they put their package together and it passes. Now, the provisions of process and all that were built into the original. It was significantly different but not fundamentally different than the agreed package. They took out some of the things that we had fought hard to get in there. We had put in an investment credit instead of a capital—-we couldn't get them to accept a capital gains tax cut but we got them to accept an investment credit. They threw that out. I think we had made permanent the R&D tax credit. They threw that out. I'm trying to remember the things that we had fought hard to get that they threw out.

Meeker: Things that were considered tax expenditures.

Sununu: Yeah. And they recovered some of the spending cuts they didn't like and I think added another tax so that they could have the additional spending. I think they went higher on the gas tax. I'm not sure. I don't remember the details. But anyway, they put a package together which tweaked. Either removed some of the things that we fought hard for or tweaked some of the knobs we had fought hard to get in certain directions and that did pass. And the President did sign it. But the process, which was an important part of the negotiations, stayed virtually as had been negotiated. And that legislative process, in my opinion, is what produced the very clear ramp up of reduction
in the deficits that eventually crossed the line and created the surpluses in the middle to later Clinton years.

01-00:40:48
Meeker: And then perhaps, as that process expired, you see deficits return.

01-00:40:51
Sununu: You see it flatten down and go back down again.

01-00:40:53
Meeker: I do want to talk a little bit about the process, because it is really interesting in the way in which it—

01-00:40:58
Sununu: Let me add one more historical fact for you before I forget it. Somewhere in there, and I can’t remember the date—I believe it was late ’89 or early ’90, very early ’90, like January/February, there was a meeting of G7 in Washington. The President had a cocktail party or Brady convinced the President to have a cocktail party in the White House for them, small gathering. And a lot of the conversation there was where they talked a lot about the fact that we had to have a resolution of the problems of the deficit and it had to be a multiyear package, a formula for multiyear budgeting and so on. And that was the incentive that we had in the back of our mind, at least, that had us negotiate very hard to get those budget processes for future years built into the package.

01-00:42:01
Meeker: Interesting. Oh, okay. That’s something I haven’t heard before. Just kind of revisiting this moment at which Gingrich sort of turns his back on the agreement. Did you ever get a sense of what he hoped to achieve by doing this? One, it could have been to maintain sort of an ideological purity, right? Or it could have been that he really thought that he was going to be able to get a better deal from the White House.

01-00:42:37
Sununu: I don’t think it’s rational to think that he thought a better deal was available after what we had all gone through. I just think he did not want to be identified with certain pieces of what was there, for whatever reasons.

01-00:42:58
Meeker: And it was never clear to you what those reasons would have been?

01-00:43:02
Sununu: I don’t think I want to—
Meeker: Not to put words in your mouth, but just speculate. Obviously somebody who’s an elected official is thinking about perhaps their next stage of election. It could have been something along those lines.

Sununu: I actually think there too was a political and personal agenda aspect to it.

Meeker: Okay, all right. Well, we can just leave it at that.

Sununu: Yeah.

Meeker: Well, let me actually talk about the process. According to accounts that I’ve read, it sounds like Darman was kind of the fountainhead of most of the process ideas that came out. We’ve been trying to figure out who actually developed the PAYGO rules and Darman has been credited in some places with developing those.

Sununu: Look, first of all, when it comes to process and budgeting, Dick really understood not only the mechanics of it but the personal foibles of the people involved quite well. But there was a lot of input on that process. I had certainly gone through budgeting and had a strong feeling that you had to dictate top lines from the top down and that people would not cut budgets without having to cut budgets. So I argued for what I would call the straitjacket model of budgeting. That people couldn’t be given loopholes to get around it. Dick understood the Congressional budgeting process quite well. Put a ton of really very clever slices into that package. And there were a lot of folks in the White House Congressional Liaison Office that came in occasionally and provided parts to it. So it was more than just one or two of us contributing to this process. Lots of career people at OMB. I’d go over and sit down with Darman and those folks and get ideas from them. There are arcane procedures in different departments. There are arcane procedures that only apply to the Department of Defense. There are different things that apply to different departments and different traditional ways of things being labeled in budgets that had to be dealt with and all of that was part of what we tried to write a process that addressed what had been baked in exceptions in the past. So it was more than just enunciating five or six principles. They had to have some details in them to make some sense.

Meeker: When you talked about this sort of straitjacket model and no loopholes, how did that manifest in the legislation?
Sununu: I wish I could remember the details.

Meeker: From what I recall, the Gramm-Rudman-Hollings legislation of ’85 that was revised in ’97 had some—

Sununu: That targeted final deficit numbers to drive them down to zero by 1990. That I remember.

Meeker: But I understand that it was more subject to sort of loopholes and voting exceptions.

Sununu: Yes. And we tried to get rid of those. That’s what I was talking about. Moving towards more of a straitjacket. But I really don’t remember the details of what we baked into it. But it was basically saying that if you increase spending there had to be a commensurate increase in revenue and that there were ways of computing what you were doing that did not allow you to stretch as they had been allowed in certain departments in the past. And that certain things that were not considered expenditures had to be considered as expenditures so that you didn’t have this off leakage. But I don’t remember the details.

Meeker: Well, it seems to me that maybe that is the biggest—

Sununu: Because they were details in which the words were very important and I don’t remember the specific words.

Meeker: Depending upon where the comma was and so—

Sununu: That’s exactly right. The emphasis had to be put on the right syllable.

Meeker: Yes. Precisely. [laughter] It seems to me like one of the big differences between Gramm-Rudman-Hollings and the 1990 Budget Enforcement Act was that the disciplinary mechanism in Gramm-Rudman was the mandated sequester. And basically that was spending cuts.

Sununu: That was the stick.
Meeker: That was the stick. And it was spending cuts but there was no real audit—it seemed like it was more directed toward cutting spending. But the 1990 Budget Enforcement Act seemed to be more agnostic, if you will. If you’re going to get to balanced budget through spending or revenue measures.

Sununu: It’s the only way we could get it.

Meeker: Okay.

Sununu: Okay. It was again driven politically.

Meeker: Obviously you have qualms about the budget itself. I wonder how you feel about the budget process. Do you think that revenue increase should have been off the table as far as the process or do you think that that was a reasonable compromise to make with Congressional Democrats?

Sununu: Yeah. That brings up something else that I should touch on. Gramm-Rudman-Hollings was really the first effort at multiyear discipline. So it didn’t know how it was going to be used or misused. But you used a phrase that reminded me of something. There is a difference between revenue increase and increased taxes. Right? If your economy grows, you’re getting revenue increase. If you do something smart in the budget and you stimulate the economy, you get revenue increase. If you go back and look at the way that is—the rules were written, I’m pretty sure we made sure that it reflected revenue increase and didn’t require them to increase taxes. That’s an important distinction that I think got messed up in our press office in the budget negotiations, where I fought awfully hard to have the word revenue increase used, that revenue increases were put on the table and Fitzwater got conned by the press into acknowledging that that probably would be taxes and gave up on the taxes issue before the negotiations got too far. Sometimes press offices do that to you.

Meeker: Well, I’ve heard that many of the frustrations about the Bush White House had a lot to do with messaging and not adequately communicating.

Sununu: Yeah. We had a press office that, in my opinion, didn’t understand the nuances of issues. Didn’t like to talk about any issues except foreign policy. When you got to budget issues and spending issues, sent the press off to the departments and lost control of the message.
Meeker: Interesting. Back to this point about the—

Sununu: By the way, I think that’s why the President has a reputation for not being interested in domestic issues. He really was very interested in domestic issues. It’s the press office that wasn’t interested in domestic issues.

Meeker: Fascinating. That’s a good insight. Back to this G7 meeting. Why do you suppose it was that leaders of foreign economies were so interested in the United States pursuing a multiyear budgeting regime?

Sununu: Look, that’s the segue into deficit versus debt versus capacity to borrow versus interest rates. They’re all tied together, right. And the world economy, one of the things that you worry about as your deficits get larger, is that your debt increases. As your debt increases, your obligation and need to borrow increases, and as your need to borrow increases your dependency on others outside your country increases. And so that’s part of the interaction that’s involved there. To some extent, people don’t realize, A, how important it is and B, how unimportant it is. And what I mean by unimportant—I’ll just give you a number that I think is correct from current day. Everyone is worried about the Chinese holding US debt today. Well, the Chinese now hold about a trillion, a little over a trillion dollars in debt. Right? Which is less than last year’s increase in debt. So yes, it’s a big number but it’s not a big number.

Meeker: Bush’s White House happens at sort of an interesting transitional period of time. Obviously with the end of the Cold War and fall of the Berlin Wall and so forth. If you look back to the 1960s and 1970s, the degree to which politicians and economists were concerned about debt and deficits largely had to do with the federal government crowding out the credit market.

Sununu: Private sector.

Meeker: The private sector credit market. That has disappeared when you see the rise of international global financial markets, whereby there is so much credit available that crowding out is not as much issue as it was during perhaps a pre-massive globalization era.

Sununu: Yeah. But you have to remember, there was a serious evolution of understanding of the impact and role both of credit markets and money supply which now, with hindsight, was handled badly in the twenties and early
thirties. We actually saw a period of time of contracting supply and squeezing the credit markets rather than what we now think should have been the solution of expanding. That evolved through World War II, in which nobody paid attention to how much debt we were piling up because it was crucial to win the war, to the post-World War II booms in which, again, it clouded rationality. You didn’t have to be as smart or correct to have things continue to function well. So that brings you into the sixties. And now the sixties and seventies are periods of time for economists of days of reckoning. Saying we’ve gone from the twenties, doing it wrong through the middle thirties into World War II and the post war boom. We’d better go back and take a look at what we ought to be doing right. And so you have an evolution, in my opinion, of economic philosophy in the sixties and seventies. Certainly the seventies were still a period of time in which we didn’t seem to know what we were doing. We go back to our earlier discussion of stagflation and the Carter administration’s absolute frustration in not knowing what it should do with money supply and interest rates and borrowing and all of that. So the eighties come in following what was, if you will, if you want to call it the quiz time, of not having performed well. So you don’t have any definitiveness in the world of economics as to what’s right and wrong. And you go through the eighties and plod along and get a little better idea and then we did what we did and I think people are now beginning to understand a little bit better that process. But for the economists today to feel that it all should have been understood clearly back then, it wasn’t and perhaps still isn’t.

Meeker: Well, I guess that’s the question I was getting at. Did it seem like the rules were, the landscape was sort of shifting beneath your feet at this period of time when the Cold War is starting to sort of perhaps slow down—

Sununu: Yeah.

Meeker: —and maybe the world economy might shift as a result of that.

Sununu: I don’t think anyone baked into the process an awareness of the quick and—the rapidity and magnitude of globalization post-Soviet collapse. Okay. All of us who were die hard capitalists and believed in free markets and all that, the Soviet Union collapses and then all of a sudden you say, “Oh, my god, this stuff really does work.” [laughter] I don’t think people appreciated the magnitude and extent of the proof of that pudding coming as quickly and as significantly as it did. So that was never part of the budgeting analysis.
Meeker: I’m wondering if you can give me a sense of, from your vantage point, the relationship between the Bush White House and Greenspan’s Fed. I don’t know if you’ve had a chance to read his memoir, but his chapter on his relationship, particularly with Nicholas Brady but also with the Bush White House, is quite fraught. He doesn’t have a lot of nice things to say, although it sounds like he had some respect for Boskin and perhaps Darman. He felt like the Bush White House didn’t address the deficit issue perhaps in the way that it should have. And it sounds like he also was somewhat frustrated.

Sununu: Don’t forget to interview Nick Brady on Greenspan.

Meeker: Well, yeah. We’ve invited Secretary Brady but he has at this point declined.

Sununu: He’s not going to do it?

Meeker: Well, we’ll see. Maybe we’ll ask him again. But so, for instance, Greenspan was very—seems to be very clear about his desire to maintain an independent Fed and not appreciating criticism from the outside. And Bush, of course, seeing some economic trouble on the horizon and not happy with the interest rates as they were, was not afraid to offer some criticism of the Fed. I’m just kind of wondering, from your vantage point of the White House, what did you think of the Fed’s action and how did you feel about the White House’s response to what the Fed was doing?

Sununu: I think one of the reasons you have that discomfort coming from Greenspan is obviously because there were certain things said publicly by the President and Nick Brady in particular. But virtually—not virtually. But every single one of those was when Greenspan was doing things that were completely inconsistent with what he had privately indicated was going to be the direction he would take.

Meeker: Can you offer any examples?

Sununu: Well, he would come in and suggest that what was going to happen to interest rates, what he was going to be doing with interest rates, and then go out and do differently.
Meeker: Do you suppose this had to do with conflicts within the Fed Open Market Committee or—

Sununu: There may be many reasons but one of the reasons he got criticism was that things that he said were going to happen didn’t happen.

Meeker: So basically lowering interest rates would be the most important of those.

Sununu: He also failed, in my opinion, to provide, if you will, an adult voice in the public domain during the budget process. And ran too quickly to hide under, “We have to remain neutral in the process.” It wouldn’t have taken much in terms of general constructive comment from the Fed to have been supportive of some of the rather significant things we were fighting for in the budget process.

Meeker: What do you suppose he could have said that would have shown a sense of leadership?

Sununu: He could have reaffirmed the contribution to growth that comes when you cut capital gains taxes.

Meeker: Okay. So weighing in on the—

Sununu: And he didn’t have to talk about a specific proposal but he could have put it in general terms.

Meeker: I assume there were conversations in the West Wing about the relationship between the White House and the Fed. Was there a strategy, an evolving strategy, about how to deal with the Fed, how to try to get a more open monetary policy that would perhaps spur economic growth?

Sununu: All of the above. All of the above. And poor Nick Brady got the assignment to have to go and deal with him.

Meeker: The way that Greenspan talks about Brady in his book is that they had been friends, colleagues, at least.
Sununu: Yes. That’s why Brady got the assignment.

Meeker: Okay. But it sounds like that particular initiative was not successful?

Sununu: Again, I go back to it. That Nick would come back with a sense of what was going to happen that we would build into the process and then it wouldn’t happen. And that happens a couple of times.

Meeker: Do you know if the President and the Chairman had much one on one interaction in which he tried to actually get the—

Sununu: I don’t know the answer to that. I think there were but I don’t remember. I think there were one or two meetings. I think a couple of times Greenspan insisted on seeing the President privately but I’m not positive of that. I don’t know if insisted is the right word. Requested.

Meeker: Sure, okay. You had mentioned the stagflation of the 1970s and the really high inflation rates. Then Volcker comes in and is Fed Chairman and really pushes the economy into a recession in order to deal with inflation rates. Do you suppose that Greenspan was motivated by this recent—fear of the recent history of massive inflation and was perhaps being overly cautious?

Sununu: Could have been. Could have been. I don’t know the motivations. I don’t want to speculate on motivations. But in my opinion there’s no question that the misperception that the economy hadn’t turned in ’91, ’92 was because people still saw rates where they were. And whatever turn in rates came, they came too late.

Meeker: Well, there was this sense amongst economists and politicians that because of business cycles there was going to be a recession sometime during the Bush presidency. Was that well understood? How did the White House deal with this projection of a recession?

Sununu: Yeah. But you got to go back to reality. The reality was that all of a sudden in 1989, the savings and loan crisis hits the real estate market and that triggers tough times. This wasn’t a business cycle recession. It is a component of the business cycle. But this wasn’t we’re on this part of the curve recession. This was the savings and loan hits. It was the mini-version of what happened
in ’07, ’08 and ’09. And that more than anything was what we were seeing as the trigger to the economic slowdown. That’s what we were feeling was the cause of the economic slowdown. Remember savings and loan lending was frozen. People couldn’t do things. They couldn’t refinance real estate projects. We had banks failing all over the place. We had to form the RTC and go in and salvage the residue. And banks that went under for whatever reasons.

02-00:08:32
Meeker: And trying to deal with all the devalued properties and so forth.

02-00:08:36
Sununu: Right. So that was what we saw was the driving force on economic slowdown.

02-00:08:41
Meeker: Interesting.

02-00:08:42
Sununu: And with all of that happening, we couldn’t understand it sometimes, the tightening on the interest rates.

02-00:08:49
Meeker: Okay. That’s very clear. Well, given this, what were the discussions in the White House about reappointing Greenspan as Fed Chairman in ’91.

02-00:09:01
Sununu: Very interesting.

02-00:09:03
Meeker: It seems like he would have been a good candidate to be replaced at that point.

02-00:09:01
Sununu: Well, Nick came in and pleaded his case and argued that he thought he would understand that credit was hurting the economy and would do the right thing. Unfortunately he didn’t. Let me just go back and remind you. A lot of what happened in interest rates, economic policy, growth, recession was impacted by the savings and loan crisis. And that hit really, literally, January 1989 and then grew up over the next year and a half, two years, which was right in the middle of the budget cycle, Greenspan reappointment and the beginning of the Gulf War.

02-00:10:00
Meeker: I appreciate your emphasis on this because I think it’s clearly a massive crisis that often gets forgotten in a lot of the economic history of the period.

02-00:10:11
Sununu: Yeah. And everything we did in the White House on budget and economics and on growth and on whatever was happening was in the context of that
becoming a growing cancer in the process. It started at nine billion, twenty billion, fifty billion, 180 billion. And in those days that was real money.

02-00:10:31
Meeker: So just one last question about the decision to reappoint Greenspan. Was it President Bush’s inclination to find another candidate prior to Secretary Brady’s intervention?

02-00:10:44
Sununu: I think it was at the stage of, “What do you think we ought to do, Nick?” And in that context. It wasn’t that there was somebody standing there as a potential alternative.

02-00:11:01
Meeker: But it wasn’t either a foregone conclusion that he would be reappointed.

02-00:11:03
Sununu: That’s correct.

02-00:11:05
Meeker: Okay. So I just want to wrap up. But I want to get your sense about your departure from the White House in December of ’91 or thereabouts.

02-00:11:13
Sununu: Right. I left in March of ’92. I stepped down as chief of staff in December.

02-00:11:18
Meeker: Okay, all right. What do you attribute this to? It sounds like there was some frustration on your part about being asked by the President to play a certain role for the White House but then maybe sometimes being punished for playing that role.

02-00:11:36
Sununu: No, no, no. Look, it was without any question related to the travel situation. And what again is forgotten there is that Scowcroft as National Security Advisor and I were traveling under a Presidential directive put into place by Ronald Reagan that said the chief of staff and the National Security Advisor cannot travel on commercial aircraft. And in spite of the fact that that was a Presidential directive, people started making a big deal out of the fact that I had to travel to a lot of different places on federal aircraft. It came at a time when we were preparing to go into the next election cycle. A lot of people wanted to be more involved in the election process than they thought they might have been if I had run the process out of the White House. So a confluence of things. Came to the obvious conclusion that perhaps if I left the lightning would follow me. I left but the lightning didn’t follow me. It kept hitting on the President. So that’s basically what drove it.
Meeker: Well, then, thinking about the ’92 election. Again, not to quote Greenspan too often, but his analysis of it was that it was the deficit that hurt Bush more than anything else in the ’92 election.

Sununu: No, Greenspan has no political sense. He has absolutely no idea what happened in ’92. What happened in ’92 was quite simply that they ran the worst political campaign run in history until Dole ran his and then until McCain ran his. Atwater had died, Roger Ailes had gone to run Fox and I left, and these were the three people that, in the ’88 election, gave bite and were able to stand up to really the tough part of campaigning. And when Perot came into the mix I just don’t think they dealt with him in a forthright enough manner and allowed him to leave and then come back into the mix a second time. There’s no question in my mind that Bush loses because they didn’t deal with Perot properly.

Meeker: How do you think Perot could have been dealt with in a way that would have been more beneficial to Bush?

Sununu: Just the minute he starts showing any political interest in the process they should have just shown what a fool he was to begin with instead of letting it grow. And the most disastrous thing they did was ever participate in that silly event in Texas that he put together.

Meeker: Perot or the debate?

Sununu: Perot put it together. No, Perot put an event together where he was deciding whether he was going to come in or not, and he’s going to talk about the budget and the deficit and everything. But Bush lost because Perot was given life and they ran a bad campaign.

Meeker: Do you think it would have been possible for the Bush campaign to co-opt Perot as opposed to distance him in any way?

Sununu: No, I think they had to minimize Perot. Ross Perot was running because he didn’t like Bush and there was no way they were going to co-opt him.

Meeker: Had they known one another?
Oh, yeah. Remember, Bush, Baker and Perot are all from the same part of Texas.

Sure, yeah.

Yeah. And Perot was angry that he wasn’t allowed to be part of the inner circle. And I had to deal with Perot as chief of staff and there was a guy who—you’d have a conversation on Monday and he’d call you on Friday to confirm the conversation and change it all around to his own suiting.

What sort of role do you suppose Perot wanted to play in the inner circle? Do you think he wanted like a cabinet position or—

Yeah, something. He just didn’t think he got enough respect.

Interesting. So there was a personal element to this.

All personal.

Okay. So you don’t see Perot as this—

Perot is an idiot.

Okay. So clearly not as a person who is honestly concerned about debt and deficits.

Well, he’s probably concerned about debt and deficits but that doesn’t mean you mess up a political process. You can have true concern about debt and deficits. You can know everything you want to know about debt and deficits, but that doesn’t mean you have to run against an incumbent president and screw the political process up. And because you have the financial wherewithal to buy all the advertising in the world, make an impact that in my opinion cost the President the election.
Meeker: Well, there’s also the question about how he communicated his thoughts about the tax increase come the election. There’s two minds. One said that he should have been more self-critical and then there’s other position that says that he would have been more successful had he defended his decision instead of turning his back on that decision.

Sununu: Look, the right way to have handled that issue, which I recommended and nobody paid attention to, is to have blamed it clearly on the two perpetrators, Mitchell and O’Neill. I mean Mitchell and Foley. They demanded taxes. The country needed a budget. Bush paid the ransom. And I think the public would have understand paying the ransom.

Meeker: So you don’t think that there would have been a feasible political argument for him to say, “Listen, this is done in the best interests of the country and we will now move out of budget deficits.”

Sununu: Yeah. It is the best interests of the country. I paid the ransom in order to get the budget that the country needed. But you have to put it in the context of these people holding the country hostage and you paying the ransom.

Meeker: So thinking about the legacy of Bush—

Sununu: See, the distinction is that if you just say, “I had to do it for the good of the country,” that’s an argument on economic terms. I’m saying he shouldn’t have said it. He should have said it on political terms. “I had a budget that worked without taxes. They wouldn’t let it happen.” They held the budget process hostage. I paid the ransom in order to help the country. I paid the political ransom.

Meeker: So being that we’re sort of in this realm of counterfactual history, like what if, given that you had—you and many others have said that the 1990 budget agreement, including the process as well as the budget, helped set the stage for some of the late nineties budget surpluses. I wonder if the revenue increases hadn’t been instituted, do you think that there still would have been that situation in the late nineties of budget surpluses?

Sununu: Oh, I think the budget agreement we came to first was even better than the budget agreement that the Democrats imposed. So life would have been better for longer, in my opinion, with a no new taxes package.
02-00:19:17
Meeker: Interesting. Okay.

02-00:19:20
Sununu: And that’s what nobody ever talks about. There was growth incentives in there, there were investment incentives in there. There were job creating incentives in there and so that was better than the taxes package that the Democrats imposed.

02-00:19:38
Meeker: Well, I think I’d like to wrap up and wonder if you have any sort of final thoughts or anything that you think that we should be exploring.

02-00:19:50
Sununu: No, I think I’ve touched on it all.

02-00:19:54
Meeker: Okay. I appreciate your perspective. We’re getting many different perspectives and you’ve offered some unique perspectives on what’s happened here. So we’ll certainly incorporate those into our future questions.

02-00:20:07
Sununu: Yeah. Reality is a lot different than current perception of that period.

02-00:20:12
Sharma: Can I actually just ask one question.

02-00:20:13

02-00:20:17
Sharma: Are you sure you don’t mind?

02-00:20:17
Sununu: No. It’s two dollars more.

02-00:20:20
Sharma: That’s okay. That’s cheap. So my question would be basically just a historian who’s interested in these issues who came of age in the George W. Bush years. This is a leading question. Why has the Republican Party become so less fiscally conservative in the last two decades?

02-00:20:44
Sununu: It hasn’t. What has happened is certain Republicans have become less fiscally conservative. And certainly in my opinion, Bush 43 was much less conservative than people perceive. In fact, I think he’s less conservative than his father on fiscal issues. But I think that’s the only administration. It’s only
that President. For example, I think No Child Left Behind was exactly the wrong direction to go. I think education responsibility should be kept at the local community level, much less the state level and not taken to the federal level. And so I think that reflected, in my opinion—there’s a reason for that. The reason for that is he came out of Texas where fundamentally the communities have not done a good job in dealing with education and the state has been scrambling for a long time trying to deal with it and I think President Bush 43 had the wrong perception that the way to fix Texas’s problem was to have the federal government do it and he thought every state was in as bad shape as Texas education, which is not true. And I think that was just the nucleus around which unfortunately he accepted the expansion of a lot of federal programs. But I don’t think the Republican Party as a whole is that way. I think what you saw in terms of the Republican Party in this last election was a firm commitment to smaller government, lower spending and lower taxes.

02-00:22:27
Sharma: But certainly the fact that the Republican Congress voted with Bush with unbelievable consistency in regards to budget busting programs—how does one explain that?

02-00:22:37
Sununu: I think the biggest part of the budget busting there was unfortunately the military spending that came in in terms of Iraq and Afghanistan. I have not done the numbers, but I suspect that if you pull those growth numbers out it doesn’t look as bad as it does without pulling them out. And Medicare and the prescription drug program. Yeah. See, I think the prescription drug program was an effort to cut off an even bigger program which would have had tremendous momentum coming down the pike. So I think you have to look at things like that. But I don’t think the Republican Party as a whole is less fiscally conservative. I will say there is an internal struggle within the Republican Party between those that believe deficits count and those that don’t believe deficits count, that would rather have tax cuts and a deficit than non-tax cuts and a balanced budget. That struggle will be there forever. It’s part of the constructive internal tension in a philosophy. But they are both predicated on the same fundamental principle that you got to have smaller government.

02-00:23:56
Sharma: I see. Right.

02-00:23:57
Sununu: See, the fundamental principle is smaller government.

02-00:24:02
Sharma: Yes.
Sununu: Then how you get there is where you have the arguments. And those arguments will continue for a long time.

Sharma: Okay, that’s great.

Meeker: Very good.

Sharma: Thanks so much.

[End of Interview]