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Alice Rivlin

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

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

Interviews conducted by
Martin Meeker with Patrick Sharma
in 2011

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01-00:00:37

Meeker: During this summer and through September we are conducting a handful of sort of short exploratory interviews where we're testing out some initial ideas and gathering information from people, policymakers, who were there and who can help contribute to our research project by assisting us, in essence, to form our research project by helping us develop the important questions. We'll then be doing a group of longer, more substantial interviews come the end of the year and through the spring of 2011. This fall we will be presenting our findings from our initial research to an advisory board that we've assembled, mostly political scientists and economists and historians at Cal. And then they will also help us sort of hone our research and also our research questions that we're going to be asking.

01-00:01:33

Rivlin: And the product will be?

01-00:01:34

Meeker: The product will be an archive, really. We will, hopefully by the end of, let's say, May, have done interviews with thirty to forty individuals. Probably 200 to 250 hours of interviews depending upon individuals' availability to us. There may be publications that result from it but really the goal will be to, in essence, create an archive of interviews related to this topic that future scholars and journalists and policymakers can go to to get a sense of not just the official story and not just the story that appears through thoughtful analysis in articles, but the human dimension of policymaking, some of the behind the scenes accounts of not only why certain decisions were made when they were made, but also why certain decisions were not made, the counterfactual approach to history. We are also asking interviewees to generate critiques, perhaps, of certain things that were done and other options that weren't taken, with the idea of opening up intellectual avenues for future work in this area. So we have a really ambitious schedule.

One other thing I should say is that conducting an hour interview with you, I feel a little bit like a novelist being asked to write a short story. Most of the interviews we usually do are six to twenty-hour interviews through several sittings with an individual. And those individuals do not necessarily have the lengthy and distinguished career that you've had.

01-00:03:28

Rivlin: I've been involved in the subject for a long time. Yes. Yes.

01-00:03:30

Meeker: You have been. It's been great to read your publications all across the spectrum. We're stuck in a little bit of a difficulty here because the way in which we normally do an interview would be to sort of start out with your

personal background, your education and your career history, and we're clearly not going to have time to do that today. So our approach today is going to be on a much more a case of looking at the forest instead of looking at the trees. A much broader approach, asking you to identify what you see as some of the major transition points over the past thirty to forty years in this issue.

01-00:04:13

Rivlin: Okay. That may be harder, but go ahead.

01-00:04:16

Meeker: It may be. And I also don't want to dissuade you from answering the questions in terms specific to your own experience. I felt like if we started talking about your work leading up to the creation of the CBO, we probably wouldn't have gotten much past—

01-00:04:32

Rivlin: You'd get stuck there. Yes.

01-00:04:34

Meeker: Yes. I'm hoping that in this interview today, you'll help, through your answers, help us formulate our larger project. And, of course, if you find this work today to be worth your time, then, of course, we'd love to do a much more substantial, longer interview with you. Have you been interviewed for the Miller Center through your work with the Clinton Administration?

01-00:04:58

Rivlin: Yes, I have. That was fun. It was fairly lengthy and I've done a Federal Reserve one, as well.

01-00:05:07

Meeker: Oh, good. Okay. But it sounds like you haven't been interviewed by the Senate or the House historian through your CBO work?

01-00:05:14

Rivlin: I don't think so. I've done a lot of interviews with Phil Joyce, who you may know has done a book on the history of the CBO which is about to come out. Quite a good book.

01-00:05:26

Meeker: I'll be looking forward to that. Okay. Well, let's get started. So in our research, we've discovered a number of different opinions about why scholars and policymakers consider the national debt to be an important issue. Some of these opinions include from the most basic, which is the debt is important because it's a huge economic issue, particularly in relation to servicing the interest on the debt. In other words, there's a real expense involved in the accumulation of a national debt. There are other perspectives that claim that deficits and debts are important because people see them as evidence of fiscal responsibility and irresponsibility—so that is that bond markets, for instance, will respond through the sense of whether a President is paying attention to this issue or not. There's also a sense that deficits are perhaps more than

symbols, but they're more like evidence of representations of legitimate concerns. So, for instance, Jefferson opposed the accumulation of national debt in the early national period because he was concerned about the concentration of power amongst financial elites in New York. And this was a legitimate concern that actually came to pass, right.

01-00:07:17

Rivlin: And they have come back.

01-00:07:19

Meeker: And they have come back. And then there are some scholars like James Savage who look at the national debt as primarily symbolic. So, in other words, national debt and annual budget deficits per se are not necessarily good or bad but—

01-00:07:35

Rivlin: Depends what's happening.

01-00:07:36

Meeker: Well, now that I've kind of introduced this, there's a range of opinion on the issue, I'm wondering if you can just comment on how you think about the national debt in relation to the various ways in which scholars have looked at it over the past thirty or forty years.

01-00:07:58

Rivlin: Well, first, I think we're in a very different situation now than we have been in since the 1970s. In the period post-World War II, the US had run up a large debt in relation to the size of its economy. But we weren't in any kind of economic trouble because of the debt. We were growing rapidly and we reduced the debt as a percent of the economy very rapidly. Not because we were reduced the debt so much, but because we grew the economy. So debt per se, until quite recently, has not been a big economic concern. Now, there were times when the deficit, the addition to the debt, was high. Sometimes for good reasons, as in an automatic deficit at the depths of a recession.

So, you've raised some economic and some other kinds of issues. I'm an economist, so I think about debt and deficits in relation to the economy and when are they appropriate and when are they not. There are good reasons for running up debt. We had a really good reason in World War II. We ran up a lot of debt. We could not have mounted the kind of military effort that we did without running up very substantial debt. But the debt at the end of the war was not a big problem. The economy was growing very rapidly and the debt in relation to the size of the economy came down rapidly because the economy was growing so fast. And that went on for several decades. So the US since World War II, until about two or three years ago, has not had very high debt levels and most economists didn't worry about the debt.

01-00:12:06

Meeker: Accumulating debt, yes.

01-00:12:08

Rivlin: Well, debt is cumulative. That's what it is.

01-00:12:09

Meeker: Yes. As opposed to deficits. Yes.

01-00:12:15

Rivlin: And most economists didn't worry about the debt per se. Many of us did worry about the deficits at various times and a deficit can be caused by a recession when revenues fall off automatically and spending rises, although to a lesser extent. That's generally good. It counteracts the deficit. It counteracts the recession, I mean, so it's a useful thing to have happen. And anything you might do to reduce the deficit in a middle of a recession would only make the recession worse. But there are times when a deficit is inappropriate. When the economy is running strongly, when there's upward pressure on prices, then the government should not be adding to the pressure by running a deficit.

So the moments at which there have been high concern among economists began in the 1980s when the deficit was rising rapidly for multiple causes: tax cuts, Cold War spending increases, and the quite deep recession of the early eighties. The deficit itself, the fact that we were borrowing that much money, was putting upward pressure on interest rates and there was real concern that the economy was being endangered by running such big deficits. That was when the Congress began serious attempts to limit the deficit with various kinds of legislation, such as Gramm-Rudman-Hollings. Nothing worked very well until 1990 when they got the Budget Enforcement Act of 1990 and that was a bipartisan effort which continued through the 1990s and was very successful in the end. We turned the deficit into a surplus by the end of the nineties.

01-00:15:03

Meeker: And that expired 2002 or thereabouts?

01-00:15:05

Rivlin: Yes. 2001 was the last surplus year. We lost that, again through a combination of policy and economic events. And through the last decade, we were running a deficit that probably was inappropriate. It wasn't huge in relation to the economy but it wasn't a moment at which we had to have a deficit. We also knew at that time that there was going to be massive upward pressure on federal spending in the future from the aging of the population and the increase in medical expenditures. That was looming in the future but it wasn't very close.

What's happened much more recently, since the crisis of 2008, is first we had the crisis and the deep recession which caused the deficit and the debt to balloon, both because of the recession itself and because of the measures that went with it to combat the recession and to bail out the financial sector.

01-00:16:34

Meeker:

So in other words, the decline in revenue is due to the recession and the increase of spending through the stimulus package.

01-00:16:48

Rivlin:

Yes, the TARP, things done to stabilize the financial system. So that ran up the debt. So now we're in a very different situation. We'd had debt as a percentage of GDP in the thirty to forty percent range. Now it's over sixty percent and headed up very, very rapidly. So now, for the first time really, we have a worrisome debt level, as well as a worrisome deficit.

01-00:17:24

Meeker:

So speaking as an economist—I've had the opportunity to go back and read a lot of the publications from your CBO years and it's very clear when the concern starts to emerge in the early 1980s about the increasing levels of deficit. You actually sort of see a change in the language. And the big concern at that point in time was that the deficit of the—I guess at that time was the GNP, gross national product, was sort of around five, maybe heading up to six percent.

01-00:17:58

Rivlin:

It was at six percent in '83, which was the high point.

01-00:18:01

Meeker:

Yes. And so there was vast concern about that. And I'm wondering, as an economist, how do you determine, say, what is an acceptable and unacceptable level of debt and deficit would be. What is the science and mathematics that go into something like that?

01-00:18:22

Rivlin:

Oh, there isn't science and mathematics. It depends what's happening. In the eighties, the fear was upward pressure on interest rates, really, and a very strong dollar which was damaging our exports. And it was very hard to bring those deficits down. They did come down some at the end of the eighties, but by the time the Clinton Administration took over in early '93, the deficit projections were quite worrisome. The deficit was going back up again on any projections that anybody had. So that was when we realized there had to be a deficit reduction emphasis and put together with the deficit reduction package of 1993.

01-00:19:31

Meeker:

So I'm thinking about in the early eighties where you start sounding an alarm about deficits. If it wasn't a specific figure of percentage of GDP, what was the source of alarm? What was so different about the early 1980s, say, than Carter's concern about rising budget deficits, which seem like a rounding error today, right, compared to what was going on in Carter's period.

01-00:20:09

Rivlin:

Well, I don't know how to explain it except to talk about what was going on in the economy. What I said about the eighties was the concern was

government borrowing putting upward pressure on interest rates. High interest rates bad for investment, bad for people who want to buy houses and cars and whatever. That's a serious concern.

01-00:20:35

Meeker:

So thinking not only about this as an economist, but thinking about this as someone who's involved in a larger project of social science, how do you as an economist interact with the other notions of the importance of national debt around symbolic, even kind of emotional responses, say, of like bond traders? During the Bush 43 presidency there seemed to be very little concern amongst a Republican-dominated Congress about increasing national debt and budget deficits which were going up and down during that period of time.

01-00:21:26

Rivlin:

But they were not concerned about the long run future. A lot of people kept pointing that out. But the Bush Administration and the Republican Congress in that period was simply kicking the can down the road. They believed in lower taxes, so they cut taxes. They wanted to have a major improvement in the Medicare program, so they proposed one.

01-00:22:01

Meeker:

Part D?

01-00:22:03

Rivlin:

Yes, the prescription drug program. Both were very expensive things to do in terms of future deficits. And they were not worrying about the long run problem of how were we going to pay for the entitlements, especially Medicare and Medicaid and Social Security as the baby boom generation retired and as medical care costs kept rising.

01-00:22:31

Meeker:

So as an economist who has an impact on public discourse in this field, how do you engage with the purely economic issues? You're talking about the concern of increasing interest rates, particularly in the 1980s, with issues that certainly have an economic dimension but there's also more like a social and a political dimension, as well.

01-00:22:57

Rivlin:

Yes. Well, I think the current situation has a moral dimension. If we stay on the trajectory that we're on, first, I don't think we can. As everyone keeps saying, it's an unsustainable situation. But if we were to stay on it or even part of it, running up this kind of debt is passing the burden to our children and our grandchildren and risking passing on an economy that is not as good as it could be and maybe not as good even as it has been. And I think that's a moral issue. It's an intergenerational issue. It's living for the moment and living beyond your means and saying, "Eh, the future will take care of itself."

- 01-00:24:09
Meeker: There's been some question about the use of metaphors like that and the relevance to—
- 01-00:24:17
Rivlin: Is that a metaphor?
- 01-00:24:18
Meeker: Well, an analogy, perhaps? In other words, thinking about household debt as living beyond our means, using this kinds of language.
- 01-00:24:30
Rivlin: Yes. But that's not language, that's fact. If we are spending more than we're producing, and passing the bill to somebody else, it's no different if you're a nation than if you're a household.
- 01-00:24:51
Meeker: In what ways is it similar?
- 01-00:24:56
Rivlin: Well, it's extremely similar. A household has an income and it needs to make consumption expenditures. Borrowing is just fine if there's a sustained income and the borrowing can be paid back at a reasonable rate of interest. But if you are borrowing more and more every year, whether you're a household or a nation, and adding to your interest burden faster than your income is going up, you're in trouble. I don't think that's a metaphor. That's just the way it is.
- 01-00:25:47
Meeker: It's a description. Fair enough. So one of the issues that historians have when they approach an issue like this is that you look back to at least the mid-1970s and there are many voices, yours included, who are raising concerns about the level of federal spending vis-à-vis the level of federal revenues.
- 01-00:26:12
Rivlin: Right, but not me in the seventies.
- 01-00:26:14
Meeker: Not you. In the early eighties.
- 01-00:26:16
Rivlin: Yes. It was early eighties.
- 01-00:26:16
Meeker: And the voices were few and far between in the seventies. It's not really until post-Kemp-Roth and Reagan's election in the early 1980s. But there are some voices and historians have identified Carter's concerns about deficits to a certain degree during that period of time. So one of the issues that a historian has to confront is many decades of people who are intelligent and also in positions of power acknowledging a grave area of concern, yet with very few counter-examples there has been either an inability to address this area of concern or perhaps things have become worse.

01-00:27:15

Rivlin: No, I don't agree with that.

01-00:27:17

Meeker: You don't? Okay.

01-00:27:18

Rivlin: We did address it. We addressed it aggressively in the nineties and fixed it. More than fixed it. We ran a very substantial surplus over several years. And so I think it's not right to say there's been concern but no action. There was very serious action. It was bipartisan, it was both parties. There was an agreement, both formal and informal. There was a consensus, a bipartisan consensus between the late eighties and the early 2000s that we had to do something about this problem. Now, people had different views of what to do. And that was kind of negotiated out in different ways at different times. It was the budget agreement of 1990 which was a little of this and a little of that. That's actually mostly what does happen. Everybody gives a little and somehow the deficit is reduced. Economic growth helps. Helps a lot. What happened in the nineties was rapid growth in revenues fueled by a very rapidly growing economy and in part by a bubble in the stock market. And slow growth in spending. It was real restraint on the growth in spending in the nineties until the very end. Once we had the surplus, nobody would be serious about restraining spending. But the rules that were put in place by the Congress helped that a lot. The rules that were first enacted in 1990 in the Budget Enforcement Act.

01-00:29:33

Meeker: The PAYGO rules and BEA.

01-00:29:35

Rivlin: PAYGO rules meaning you can't make the deficit worse. You can't enact a tax cut or an entitlement increase without having an offset for it. And the caps on discretionary spending. That worked well. Not perfectly and it eroded toward the end of the decade. But it was a very successful policy that actually turned things around.

01-00:30:06

Meeker: Well, this actually helps us think about an issue that we've been addressing and it's a historic periodization issue, really, which is looking at the Reagan Presidency and the deficits, the annual budget deficits and the accumulating debt during that period of time. Then you have, particularly in the second half of the Clinton Presidency, the surpluses and there's a real historic turnaround and then you go to Bush 43 and things start to go awry again. And we have this question of: are we talking about one historical period with the Clinton era, we'll say, from you said late eighties to the early part of the twenty-first century as an anomaly or is there a clear break between different eras?

01-00:30:51

Rivlin: No.

01-00:30:52

Meeker:

What are we talking about here as far as periodization? Would you say that 1980 to the President is one era and there was a peculiar period within that of the second half of the Clinton Administration, right?

01-00:31:06

Rivlin:

No. That's much too simple. Reagan was remarkably, actually, concerned about deficits. Not at the very beginning but the Reagan Administration, and I think Reagan personally, realized they'd gone too far with the tax cuts in '81. They had several tax increases in '83, '84 to help mitigate the deficits. So it was a different approach. They didn't entirely cure the deficits. By the end of the decade there was still a problem and it was exacerbated by the recession in '91. But I think there was a different attitude toward deficits then which carried through the Clinton Administration. It's easy to say Clinton Administration, but remember, for six years it was a Republican Congress. It was Clinton on one side and Gingrich and Company on the other agreed that the deficit had to come down. That was a complete unanimity. What they were arguing about was how to do it. And they compromised that out.

01-00:32:40

Meeker:

So I didn't mean to dismiss the efforts of reform that were made during this period of time. There was, of course, the '74 Act, which was really budget neutral. It was about process. Then there was the Gramm-Rudman-Hollings, there was, as you said, the 1990 Budget Enforcement Act and also failed attempts at creating a balanced budget amendment. But simultaneously, within Congress in particular, and also the presidency and society overall, there's been this kind of emergence of a discourse about the third rail of American politics.

01-00:33:23

Rivlin:

Well, the third rail usually means Social Security.

01-00:33:26

Meeker:

Well, it usually means Social Security, right, but there's at least Social Security and Medicare. I guess I would probably put them in the same category. The social entitlements. But perhaps there's two others, as well. One would be defense spending, which at certain times in our history and in certain Congressional districts also is a third rail. In other words, you can't touch it. You can't really cut it substantially to make any dent into deficits. And then the third one would be particularly the Republican aversion to tax increases after Bush 41's presidency, which he arguably lost because he broke his pledge to not raise his taxes.

01-00:34:17

Rivlin:

Well, it anti-dates that. Reagan certainly ran on tax rate cuts.

01-00:34:24

Meeker:

Yes. And we're from California and Prop 13, of course. The birth of the tax revolt.

01-00:34:29

Rivlin:

Oh, that's true, but I'm not quite sure what you're trying to get it to add up to. There are a lot of cross currents and there's certainly a genuine disconnect between what is politically popular to do—it's not always but generally politically popular to cut taxes and it's generally politically popular to increase spending. That's not new. That's always been true. And that's been up against a feeling that eventually you have to pay your bills. So it's ebbed and flowed and the tax cut folks have had all sorts of arguments for why tax cuts are a good thing. Back in the Reagan years, there were supply side economists that actually believed or certainly said that cutting tax rates would pay—the tax loss would be made up. Fortunately, nobody in the Reagan Administration ever officially put that in their projections. It was widely talked about but cooler heads prevailed. But you certainly hear, "We can't raise taxes because this will kill the economy. It's bad for growth," etcetera. People love to bandy that around.

01-00:36:33

Meeker:

I think that in essence is what I was getting at. You simultaneously have this desire to reduce deficits and cut the national debt, but yet there's also this incentive to spend and cut taxes. And throw that on top of the fact, particularly in Congress, that with the way that entitlements work, there's very little discretionary spending available for Congress to spend or cut. What it comes down to is, what, about twenty percent of the budget now if you think about the required entitlements and there's spending for interest on the debt and so forth. And so Congress is in this place where it seems like they've kind of worked themselves into this place.

01-00:37:18

Rivlin:

Well, Congress has put themselves into this place.

01-00:37:22

Meeker:

Yes. When does this happen? This is just something I'm starting to notice has happened. It seems they've put themselves in this place where they actually can't take any action.

01-00:37:33

Rivlin:

Oh, sure they can.

01-00:37:35

Meeker:

Okay. Well, you said you that Congress has put themselves in this place.

01-00:37:39

Rivlin:

They can. We have gotten an extremely complex and dysfunctional budget process and committee structure. Both. And that's happened gradually over a very long period. Some of it's covered by your study, some of it antedates that. But I guess I think that in the next few years we'll have to face up to some of this. That it's been relatively easy for the United States to most of the time really not face up to some difficult issues and our government structure

makes that somewhat easier. I don't think there's any way that we can avoid facing up to it in the next decade.

01-00:38:56

Meeker:

Well, considering the history, right, and considering the fact that it's very difficult to touch defense spending, that it's very difficult to address Social Security and Medicare.

01-00:39:04

Rivlin:

Well, it's not always difficult. It's not always difficult to touch defense spending. One of the people who brought it down fastest was Dwight Eisenhower. But it depends on what's happening. We had defense spending that came down from the height of the Cold War, where it was about ten percent of the GDP to about three and a half percent. And part of that was just the GDP growing faster than the defense budget and part of it was real restraint on defense spending and part of it was base closing and other things that were done. Now, maybe not fast enough. And now we're maybe coming into another period like that with the Iraq War and the Afghanistan War probably winding down in the next year or two. We're likely to see quite substantial drops in defense spending, I would think.

01-00:40:30

Meeker:

Well, and Secretary Gates has proposed as much.

01-00:40:32

Rivlin:

Well, Gates has proposed some rather minor things. But he wants to get ahead of the curve.

01-00:40:38

Meeker:

Yes. It's just thinking about this historically, there's sort of an issue. It seems like Congress has kind of backed themselves into a corner. Whether the expenditures can be touched or not, they're difficult to touch. The actual leverage that they have and the ability to alter the budget seems to be constrained, yet at the same time these larger issues loom.

01-00:41:12

Rivlin:

Well, there's another important thing. I think what you're just describing is democracy. People want more services from their government than they want to pay for and that's true everywhere. It's not peculiar to our government. What has made us able not to solve our problems is that we can borrow easily in our own currency at relatively low interest rates because we were considered the safest country in the world and our Treasury bonds were the gold standard for everybody for securities. One of the most curious things that happened in the crisis of 2008 was the whole world rushing to buy Treasury bonds. Now, here was our economy in the worst trouble it's been in since the 1930s and if that had happened in many other countries, they would have had trouble selling their bonds. We had no trouble at all and interest rates fell to nearly zero. So the fact that we had, as a result of the post-World War II situation established ourselves as the world's currency and established the

Treasury bond as the most secure security in the world gave us a latitude that other countries didn't have.

And the other thing that makes it difficult for us is our separation of powers. Parliamentary systems have a much easier time facing up to problems than we do because we have such fragmented power between the branches.

01-00:43:24
Meeker:

So you brought up the international issue around global flow of capital and so forth and you alluded to the Bretton Woods system whereby the dollar was the world's currency, which began to—

01-00:43:38
Rivlin:

Well, it wasn't Bretton Woods that made it that.

01-00:43:42
Meeker:

What was it, then? That's what historians say. Go ahead.

01-00:43:45
Rivlin:

Well, Bretton Woods may have reflected it, but it was that we emerged from World War II as the strongest economy in the world and the dollar was the strongest currency. Bretton Woods established a fixed currency regime that functioned for a while, but that wasn't what made us the world's currency. What made us the world's currency was we won the war and we had the strongest economy in the world.

01-00:44:15
Meeker:

So when you see the sort of disillusion with the Bretton Woods system in the early seventies, you don't necessarily see it as having a major impact on the relevance of the dollar in the world economy, I'm guessing.

01-00:44:26
Rivlin:

No.

01-00:44:31
Meeker:

Interesting. There is this other question that I wanted to ask about global capital, particularly about what's going on in the 1980s, because there was a lot of concern raised about deficit spending resulting in higher interest rates and there certainly were higher interest rates during that period of time. But in many ways the warnings of what was going to happen as a result of that, meaning the diminishing of private capital markets, didn't necessarily happen in the way in which it was predicted.

01-00:45:11
Rivlin:

The diminishing of private capital.

01-00:45:12
Meeker:

In other words, the federal government was going to borrow so much money so there would be less capital available for personal and corporate borrowing.

01-00:45:26

Rivlin:

Yes. That, again, depends on what's going on. We were certainly seeing the high interest rates in the eighties. I don't think that was a fiction. It was happening.

01-00:45:51

Meeker:

Yes. But it didn't necessarily freeze up the system in the way in which there were some predictions that it would have. Am I reading this incorrectly?

01-00:46:00

Rivlin:

Well, I don't remember what. I'm sure some people were making dire predictions about that. But you have to remember, eventually we fixed it. And we got the deficit coming down, we got the interest rates coming down at the same time.

01-00:46:21

Meeker:

There's so much I want to cover but we keep coming back to the 1990s as kind of a remarkable period in which some of the most intractable problems were addressed, although clearly not permanently solved. As you mentioned, the budget surpluses ended in 2001, maybe not coincidentally at the same time as the Budget Enforcement Act expires, right? There's like a five year window?

01-00:46:54

Rivlin:

Oh, it expired in 2002 and that was not a coincidence. The second Bush tax cut would not have been possible, nor would Medicare Part D if the rules had remained in place.

01-00:47:10

Meeker:

Well, thinking about the late eighties and early nineties where this bipartisan coalition, right, of people interested in tackling the national debt, sort of slaying the dragon, if you will, that then disappeared by the time that Bush 43 comes around. What do you suppose it was about that particular group of individuals? Who were some of the key people involved in this? What maybe in their personality, but also in the larger context, allowed them to pursue this more responsible path?

01-00:47:50

Rivlin:

Well, A, I think they were really worried, and for good reason. But there was strong leadership in both parties in Congress. And it was less stridently ideological than it is now. People were willing to cut deals, work across the aisle.

01-00:48:12

Meeker:

So we're talking about like Dole and Domenici?

01-00:48:15

Rivlin:

Yes. And, oh, it was on both sides.

01-00:48:23

Meeker: Sure, sure.

01-00:48:27

Rivlin: Lawton Chiles, for example. Who were the Democrats in those days? Anyways, there were plenty of them.

01-00:48:36

Meeker: So you kind of see it as a matter of individual personality and a grave concern about where the economy was headed at that point in time?

01-00:48:48

Rivlin: Well, yes, I guess so. I wouldn't have put it in terms of personalities. There were extreme ideologues but they weren't in charge. There were certainly some in the Reagan Administration. But at the same time, there were more sensible flexible people like Dole and Baker and Domenici in the Congress who were willing to make compromises.

01-00:49:29

Meeker: When you say Baker you mean Howard Baker?

01-00:49:32

Rivlin: Yes.

01-00:49:35

Meeker: This issue about the relationship and the negotiations between the executive branch and the legislative branch was something that was changed, from what I can tell in the literature, pretty remarkably in 1974 with the creation of the Congressional Budget Office. I'm wondering if from your perspective, looking back on this period of time, do you have any general thoughts about the evolving relationship between the executive and the legislative branch addressing this particular issue?

01-00:50:11

Rivlin: Well, I think the CBO, existence of the CBO, strengthened the hand of the legislative branch and made it more possible for the legislative branch to deal with the executive on equal terms. And the creation of the budget committees had the same effect. Before the budget committees, there was no one in charge of the budget on Capital Hill. So once the budget committees and the Congressional Budget Office were put in place, it didn't determine policy but it made it possible to have a conversation about what you could do about the budget, which wasn't really happening before that. The President sent up a budget, the Congress didn't necessarily like it. They didn't like Nixon's at all and they didn't like Nixon impounding funds, which was what gave us the '74 Act. But they didn't really have a way to articulate their own power. They had the power. The Constitution says the President can't spend anything without the Congress appropriating it but they weren't organized to exercise it. But I think we're suffering now from the fact that the reforms of '74 were layered on top of the existing authorizing and appropriating structure. They just made it more complicated, put something on top of it. That's been a theme of US

government for a long time. If something's a problem, create a new institution but don't get rid of any of the old ones. So we just get more and more centers of power.

01-00:52:16

Meeker:

Well, I've had the opportunity to read many of the articles that you've written offering some really reasonable and not necessarily painful reforms that might help the process become more streamlined and perhaps more efficient: this notion of reforming the process in Congress, maybe eliminating some of the committees and allowing the budget committee to act in a more concentrated way, for example. What is your sense about the current status of addressing these process issues in Congress?

01-00:52:58

Rivlin:

Well, there are different kinds of process issues but I think the organizational issues, the committee structure, it's very hard to get Congress to address that.

01-00:53:07

Meeker:

Is that largely because of the fact that committees have members and that's where they get their power from?

01-00:53:12

Rivlin:

And chairmen and ranking members and ranking member might get to be the chairman some day. Yes. It's a source of power.

01-00:53:25

Meeker:

And so that also is in many ways just as difficult a reform than perhaps reducing entitlement expense.

01-00:53:35

Rivlin:

Oh, I think it's much more difficult.

01-00:53:36

Meeker:

Really?

01-00:53:37

Rivlin:

Yes. In the period in which I've been involved with the Congress, we haven't had any. We've had only additions of committees, as far as I know.

01-00:54:02

Sharma:

In one of our previous interviews, we had someone mentioned who had worked in both the Carter and the Clinton Administrations. That this notion that reducing the deficit to bringing down interest rates was something that wasn't so well understood during Carter's time, at least within the Administration, but was sort of a consensus within the Clinton Administration and I was wondering if you could speak about whether that's become more of a consensus.

01-00:54:32

Rivlin: Yes. That's true. Yes, I think that's true. But Carter didn't have such a big deficit. Certainly not by the end of his time.

01-00:54:44

Sharma: He was worried about it. He railed against Ford's deficits in the '76 campaign. At the time, at least, it was seen as a large deficit.

01-00:54:56

Rivlin: Yes. In '76 we were still in a recession.

01-00:55:06

Sharma: Then maybe when you reflect on that, also, we're wondering a little bit about where exactly Bill Clinton's desire to reduce the deficit came from. I think there are competing theses out there. One is that he was the governor of a conservative state and governors tend to be more fiscally conservative because they have to produce balanced budgets. Another is that he was sort of convinced of the need to reduce the deficit by Alan Greenspan and Bob Rubin, who imparted upon him the importance of reducing the deficit in calming financial markets. From your perspective, I wanted to know how you account for Clinton's move towards deficit reduction.

01-00:55:52

Rivlin: All of the above. I think anybody who's been a governor of any state, but especially perhaps a relatively poor state like Arkansas, is very conscious that you can't do everything you want because you can't pay for it. States can float bond issues but they basically can't run deficits for very long. The cliché is they have a Constitutional amendment that keeps them from doing that, but that's nonsense. The reason they can't borrow very much is they can't sell the bonds and they don't have the kinds of unlimited credit that the federal government has. So anybody who comes from a state government structure is likely to think more seriously about fiscal responsibility because he has to. There's no choice. Clinton was just beginning to realize how serious the prospective federal deficit was by the end of the campaign. Now, one forgets Ross Perot. He was also in the action and was reminding people deficits were important in two campaigns, actually. So he was a factor in public opinion. By the time Clinton was elected, I think there were a collection of people, and I was one, and I think one of the reasons I was selected was that I had a track record on deficit reduction. Not a track record, but a set of views that were known. So before the inauguration, after the election, the economic team gathered in Little Rock, actually, and talked about how much—it wasn't a question of whether we wanted to reduce the deficit. I think everybody was on board with that, including the President. It was how much. And we sat around the table and talked about could we cut it in half in four years. Could we do more than that? Would it be desirable to do more? Would it be desirable to do less? And by then we had a consensus. Greenspan's role was very marginal. I'm very fond of Alan and I'm sure he had a couple of conversations with Clinton, but at the time he wasn't a player so far as I knew and I was in all the

meetings. I don't even remember anybody referring to Alan, particularly. Certainly there was a sense that if we did do serious deficit reduction, then it would be helpful with the Fed, but nobody was making any secret of that.

01-00:59:44

Sharma: What about consideration of monetary policy?

01-00:59:46

Rivlin: Well, that was what that was about.

01-00:59:52

Sharma: Sure. In other words, the people sitting around the table weren't really considering the direction of monetary policy at the time.

01-00:60:00

Rivlin: We were assuming that if we were successful in bringing the deficit down, that the Fed would help bring interest rates down, or at least not be an impediment.

[End of Interview]