



## WILLIAM J. CLINTON PRESIDENTIAL HISTORY PROJECT

### INTERVIEW WITH ALAN BLINDER

June 27, 2003  
Princeton, N.J.

#### **Interviewers**

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John Gilmour  
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## TRANSCRIPT

### INTERVIEW WITH ALAN BLINDER

June 27, 2003

**Riley:** First, let me say how much we appreciate your devoting your time to this enterprise. I know you have a busy schedule. I think I can speak for all of us that we're happy to be in Princeton today, too.

The first thing we need to do is get a voice identification for the transcriptionist. So I'll ask each of you to say a word or two and identify yourself. I'm Russell Riley, an assistant professor at the Miller Center and project leader for the Clinton History Project.

**Gilmour:** I'm John Gilmour, an associate professor at the College of William and Mary.

**Weatherford:** I'm Steven Weatherford, a professor at the University of California.

**Blinder:** I'm Alan Blinder, a professor at Princeton University and the subject of this interview.

**Riley:** Very good. Let me begin by asking you about your earliest experience with the federal government. That was with the Congressional Budget Office [CBO]. Can you tell us a bit about how you came by that position and what you ended up doing there?

**Blinder:** Yes. I came by it in a very weird way. I was a young kid at the time. Twenty-nine, I think. At that point the Budget Act of 1974 had completely changed the way Congress does budgeting, as you no doubt know, and established Budget Committees in the House and Senate and incipiently established the Congressional Budget Office. It didn't exist yet. A fellow named Arnie Packer, who was then the chief economist of the Senate Budget Committee, called me and said, "This is exciting, we'd like you to come down here and work on it."

**Riley:** You were at Princeton at the time?

**Blinder:** I was at Princeton at the time. As a young 29-year-old, I think it turned my head a little. So I went down and talked to him, and I started thinking about it. The wise counsel was, "You don't really want to get involved in that, it's politics." About that time Alice Rivlin, who had been named the first head of the CBO, called—so this must be the spring of '75—saying they were starting to staff up the CBO and would I join? Now that seemed more analytic, less political. It passed the smell test, so I agreed to do it.

But it was only a long summer. The original proposal was to take a leave from Princeton. I didn't think it was a good time in my career. All of you know what academic careers are like. I was 29, untenured. So I did it basically from May to September and then on a very part-time consulting basis into the following academic year. I like to joke that I was one of the founding fathers under the founding mother, who was Alice Rivlin.

It was a lot of work and a lot of fun. There's nothing quite like being in a new agency when it's first starting up and hasn't had any time to bureaucratically calcify or anything like that. We were working out of a converted hotel and nobody had an office. It was like that.

**Riley:** What kind of work were you doing?

**Blinder:** We were basically doing all the macroeconomic analysis and forecasting with a staff of about three. I used to say at the time that we were trying to produce something comparable to the President's economic report with a staff of three—in just three months. A slight exaggeration—our report wasn't as thick as that.

As you know, a macroeconomic forecast, fallible as they are, is the foundation of budgeting because the revenues and some of the expenditures depend on the macroeconomic situation. It all has to start there. I found the opening days of the Clinton administration reminiscent of the CBO days. We'll come to that later. We hit the ground running, and it was, "Produce a macro forecast right away." The whole budget process is paralyzed until you have the macro forecast. So the CBO was the same sort of thing. We had to get the macro forecast out there before the number crunchers could start crunching numbers in any serious way.

**Gilmour:** So you decided to start from the ground level in making your own macro forecast.

**Blinder:** Yes, we did.

**Gilmour:** Did you ever consider working off of OMB [Office of Management and Budget] numbers?

**Blinder:** No.

**Gilmour:** Or private forecasting numbers?

**Blinder:** Yes. The private forecasting numbers are all out there, they're in newspapers, and you can talk to people. We subscribed to some of the commercial modeling services. There were more then than there are now. There were several. If you remember the origins of the new budget process, and the CBO in particular, it was for Congress to strike out independently of the White House. So the last thing we would have ever thought of doing was adopting numbers from the OMB. But we were all neophytes, we had to get the job done quickly, and we very much cared about what the private sector forecasts looked like and how we looked compared to them.

One of the jobs I did at the CBO was to try to learn, as quickly as I could, the blood and guts of these various macro-econometric models. They're big things. There were notebooks about three times the size of this, and we were using three of them, or something like that, so it was a fairly big job. These 250-equation models are not that transparent. What they do is often not so intuitive. It was a big job of mine to try to digest it and then translate it so others around the table could, in some sense, understand what made these models tick. It wasn't just for the forecast. You see, a crucial part of the job then, and of the job that we did at the CEA [Council of Economic Advisors] later with the Clinton budget—and this is generic, it's nothing unique to me or to us—is that you do marginal changes in policy and then you ask how the economy would be different.

In the Clinton case, it was cutting the budget. In the case of the 1975 CBO, the economy was really weak and it needed stimulus. So the question was, What would various fiscal stimulus packages do to the economy? But all of these are marginal changes. You stick them in a model, and the model chugs and chugs and chugs—computers chugged more in those days than they do now—

**Riley:** You did have computers?

**Blinder:** We did have computers, though not by modern standards. Probably no one would call them a computer now; they'd call it a Tinkertoy compared to today's computers. But we did have computers. You can't do these models without them.

But it was important to get inside that black box a little. You'd put the policy in one model and you'd get one answer. Then you'd put it in another model, and you'd get a different answer. So then it would fall on somebody—in the CBO days it was me, later in the CEA days I had staff to do this—to get inside the guts and see why we're getting a different answer to these models. Then you'd make a judgment about which answer, or which compromise of the answers, you want to believe.

**Gilmour:** How much involvement was there from members of Congress in the early days in setting up the forecasting shop?

**Blinder:** Negligible to zero, to my knowledge. I certainly never saw any interest in that from the point of view of the members. I may have been naïve at the time, I was only 29. But it looked to me that the two chairs of the Budget Committees—they were the first chairs of the Budget Committees, I'm sure it was Ed Muskie in the Senate and I think it was Brock Adams in the House if I remember correctly, I can't believe I can remember anything 30 years ago at my age—seemed very high-minded about this. It was a new process. They wanted to get it off to a good start. I doubt it even crossed their minds to try to meddle in the economic forecast.

I'm sure, when it got down to some budgetary nitty-gritties like lumbering in Seattle, Washington state, you probably saw the heavy hand of politics. But that was not where I was in the process.

**Riley:** Did you have any interaction with members of Congress other than just giving these reports?

**Blinder:** Very, very minimal. Alice Rivlin did, I didn't. I was three levels down from Alice.

**Riley:** Did you have much interaction with her? It must have been a very small shop.

**Blinder:** Oh, yes, it was a very small shop. If I remember correctly, I was about the 22<sup>nd</sup> person hired by the CBO. So that was the size. And it was growing, of course.

**Riley:** At the time, was she somebody who had, to your recollection, a reputation of being a politically astute person in that position, or—

**Blinder:** Yes, reasonably. I like the way you put it, politically astute but not political. That is, someone who can get some credibility and trust on both sides of the aisle. The whole Congress was less partisan then than it is now. I don't think that could happen these days. There was partisanship, but less partisanship than now. Alice was clearly a Democrat, had served in a Democratic administration, and was at Brookings. But she was very much trusted by the Republicans and had a fair amount of Washington and political savvy, vastly more than the young whippersnapper from Princeton had.

**Riley:** Were there other people in the shop who were considered political people as opposed to economic technicians, if that's not a bad word?

**Blinder:** Yes, there were, but not so many. Alice had a, I guess it was deputy director, Bob Levine was his name. He was a little more political. But again, the whole atmosphere was just not as politicized as now. Alice had a special assistant whose name escapes me now—Ed something. I remember him very well because he was a former Army major, something like that. He may have been a Marine. But he had the voice that you would expect. We had no private offices, and he had the desk next to mine. I'm trying to work on numbers, but his job is basically to be on the phone. He was liaising with the Congress and other parts of the government. It was his job to be on the phone doing these things. He had this booming voice, and I'm trying to crunch numbers and understand 200-equation models. It was pretty intolerable, though no fault of his. So there were a few people like that.

**Riley:** I want to pick up on a string that John introduced. Was there any kind of ongoing relationship with OMB at the time or was the culture such that you truly were attempting to or built walls between them?

**Blinder:** There were some. Building walls is probably going a little far, but there was a clear sense that the mission was to give an independent information source to the Congress. That's what we were supposed to do. We certainly were not getting our answers from OMB. But OMB had been at this job a long time. I don't remember specifically, but I'd be surprised if some of the hires didn't come out of OMB. I don't remember, it's too far back. You needed to get some expertise on the technical aspects of the budgeting. So that may have happened. And I'm sure

there were lots of questions at the staff levels asked back to OMB staff, “How do you do this?” “What’s the basis for that?” There must have been.

At my level, in dealing with the macroeconomics, we didn’t really need that. We had the internal expertise, and if you wanted advice there were places to go in academia and commercial modeling. It wasn’t as if OMB was a great center of economics. There wasn’t any reason, really, for our little shop, if you call it a shop, to look to the OMB for anything.

**Riley:** How was this experience treated here at Princeton? Did you find your colleagues considered it a wise expenditure of time?

**Blinder:** I think it was largely ignored. Since it was only a summer, it was like going to summer camp. I think if I had told my colleagues I was going to take a two-year leave of absence to do this, they would have thought I was nuts, imperiling my career and so on. I didn’t do that, of course. I don’t remember any significant reaction of that sort.

**Riley:** You didn’t come back to Washington for a fairly long time. Is it correct to infer that the experience wasn’t sufficiently compelling for you to want to make the trip back?

**Blinder:** No, no, there were a couple of things. First of all, in the years that followed, I was asked many times to come on the CEA staff. And for personal reasons, like we had a baby, or for career reasons, like this is the year I was up for tenure review or something like that, the timing was never right. Secondly, most of the intervening years between then and 1993 had Republicans in the White House. Actually, I did get asked to go on staff anyway; the CEA staff is not that political. But I wasn’t inspired to go to work for the [Ronald] Reagan administration. So that was easy to turn down.

At the very end of the [Jimmy] Carter administration, I almost went on. Of course, we didn’t know at that point that it was going to be the end. He was running for a second term. There was a vacancy for a member of the CEA, not a staff position. It came down to two finalists. One was my colleague, who is now deceased unfortunately, Steve Goldfeld, and one was me. Charlie Schultze, who was the chairman, picked Steve Goldfeld. I probably would have taken it at that point if Steve turned it down and it was then offered to me. So that was 1980, I was still pretty young. Then we had the Reagan years and the Democrats went into the wilderness.

**Weatherford:** Had you worked on any campaigns before you joined up with the Clinton group?

**Blinder:** A little but not extensively. I had some involvement with the ill-fated [Michael] Dukakis campaign in 1988. It wasn’t extensive. I talked to a number of would-be candidates. People who were thinking about whether they should be candidates often seek out advice on, “What are the issues? What could I run on? What’s the economy going to look like?” So I talked to a number of Democratic candidates in what became the ’92 electoral cycle before Bill Clinton. I’m sure you remember, George Bush the first was considered unbeatable, and most of what was considered the first team in the Democratic Party thought about it a while and said, “I don’t think so.” So that was the nature of the experience. I had never really been in the thick of a campaign

before Clinton. Larry Summers was heavily involved in the Dukakis campaign, I was very peripherally involved.

**Gilmour:** I'd like to go back to the CEA staff question. You said you were asked at various times to be a member of the staff. From the standpoint of a professional economist, what rewards are there or problems with serving on the staff?

**Blinder:** The problem is obvious, which is that it takes you away—especially if you're at a young age—from the career-building stage. You do not do research when you're on the CEA staff. On the plus side, you may get ideas for research. That was truer then than now. Economics has become much more ethereal than it was 20, 30 years ago. So I think it is less likely that a young economist goes to the CEA staff now and comes back with ideas that might get him published in the top journals. That wasn't quite so far-fetched then.

It was generally considered, and still is, a good thing to do; you learn a lot about the practical side of economic policy. There's a tremendous esprit de corps at the CEA. In all administrations, there's a feeling that the CEA is fighting a losing battle for common sense and good economics. This is nonpartisan. It doesn't matter whether the President is a Republican or a Democrat.

Opinions in the CEA move only slightly when the President changes from Republican to Democrat, whereas opinions in the White House move a lot. So I think it was considered a good thing to do, especially then, and to a considerable extent still now, but maybe a better thing to do once you have tenure because it does not advance your academic career.

**Gilmour:** Is there a perception among economists that if they go to the CEA staff they'll be able to do good economics the way they think they should, or would they perceive that they're going to have to tailor their views and their analysis to the current administration?

**Blinder:** I think most of them are naïve that way, the ones who haven't been there before.

**Weatherford:** Including Artie Goldsmith?

**Blinder:** Most probably yes, not anymore but then. They go in with an excessively optimistic view of their ability to do good economics and yet get somewhere. Once you're there for two weeks—well, if you're a member, like I was in the Clinton administration, it probably takes only a week or two, if you're staff it probably takes a month or two because they're further from the political process—you quickly realize that this is definitely not about scoring academic points. The fact that you had the best arguments does not mean you prevailed at the table. It's almost exclusively about fighting defense, trying to fend off bad to idiotic ideas that keep percolating up from the departments.

You start to get the jaundiced view that the various departments of government are designed to produce bad ideas, and that your job is to try to bat down as many of them as you can.

**Riley:** Building on this, I understand that among the members of the CEA there's a sense that you have a kind of partisan disposition to be offered—

**Blinder:** To be a member, absolutely.

**Riley:** That doesn't hold true for the staff, or does it hold true for the staff, or has it changed over time?

**Blinder:** It holds true to the staff to a much smaller extent, and you get it this way. I used myself as an example when you asked before. I didn't want to go to work in the Reagan administration on the staff. I had other things to do. I didn't believe in what that administration was doing, and I didn't want to work hard to help them. A number of people are going to have similar attitudes.

That said, the work of a CEA staff person, as opposed to a CEA member, is not in any sense political. The work you would get out of a Republican or a Democrat—speaking now as though I'm the member thinking about the staff—wouldn't be significantly different. We came into office in January 1993, inheriting the "Republican" staff. Now, they weren't all actually Republicans, but most of them were from the previous administration. We didn't fire the staff. Most of them were academics, dancing to the tune of an academic year, and that was January. So we kept them all.

**Riley:** Okay.

**Blinder:** We didn't fire anybody, and none of them quit. And it was fine, it worked fine.

**Riley:** If I were to look at the CV [curriculum vitae] of someone in an economics department and see that he or she had served on the CEA staff within a given administration, is it fair for me to reach the conclusion that that staff person is probably a partisan of that particular party or is there a good likelihood—

**Blinder:** I don't think you get an R squared better than 0.5 on that. The quintessential example is that both Larry Summers and Paul Krugman served under Marty Feldstein on the Reagan CEA. These are hardly right-wingers, especially Paul. So I think you get a little out of it, for the proclivity to agree to serve, as I said before. But that's about it.

**Weatherford:** You mentioned that part of Alice Rivlin's heritage at the CBO was to try to keep it nonpartisan, and your image of the CEA is that it bats down bad and partisan ideas. Do you have in mind an image of different agencies shifting to different degrees with a new administration? So if the CEA is relatively stable, what about OMB, what about Treasury, what about CBO these days?

**Blinder:** The answer is absolutely yes. Take them in order. Let's take OMB and Treasury together. The staff work is dominated by careerists who are there through Republicans and Democrats. They bend and serve their political masters, as they're supposed to. But the top ranks of those agencies get completely replaced by political appointees going down several levels. Treasury is bigger than OMB. But, several levels into the bureaucracy, the attitudes of those people often change dramatically. And the things that they want done and, by the way, the answers that they would prefer, change dramatically.



It is the strength of our system that the people who crunch the numbers in the basements of the Treasury Department and the OMB don't bend to those political winds very easily. Sometimes they get a lot of pressure and sometimes they do bend, but there's a lot of resistance. So the questions that are asked, the answers that are wanted, the policies that are being worked on shift hugely. In that sense, the attitude of the agency is dominated by the political people at the top, as I think it should be. I don't think there's anything wrong with that. This is much less true at the CEA, which tends to be an outpost of academia. At the CEA you get reflected the attitudes of academic economics, which is not to say there aren't left-leaning and right-leaning people in academic economics.

If you ask Greg Mankiw, who is now the chair of the CEA, about his position on a lot of issues, and compare it to Joe Stiglitz or Laura Tyson or someone, you're going to get different answers on many issues. But on most, you're actually going to get the same. People don't realize that. On the majority of issues you're going to get the same answer, but on a fair number of significant issues you're going to get different answers.

**Riley:** How did you first get to be involved with the Clinton campaign?

**Blinder:** This I remember. There was a fellow who died tragically that summer, named Vic Raiser, ironically—

**Riley:** This is the summer of '92?

**Blinder:** Summer of '92. Yes, he died that summer. He was involved with Clinton, ironically as a fundraiser. His name was Vic Raiser, very nice fellow, Princeton grad. He called me sometime that spring, saying, "The Clinton crowd thinks you're aligned with [Bob] Kerrey and therefore they don't want to talk to you." This must have been because, as I said, I'd had talks with a lot of the candidates about whether they should run or not run on a nonexclusive basis. I'm doing that again now. I said, "No, that's not true at all, I'm not particularly aligned with anybody." He said, "In that case, we want to get you involved with the Clinton team."

About that time Gene Sperling was coming over. Have you talked to Gene yet?

**Riley:** Not yet.

**Blinder:** You will. He had worked for Mario Cuomo, I had known him in that context. He came over to Little Rock to head up the economic policy operation there. He called me to get me involved by a fax and phone—there wasn't email in those days. I never went to Little Rock until much later. I didn't actually meet the candidate until much later. But it was about bouncing around documents, "What do you think of this? We need something on this."

I learned in the Clinton campaign that a presidential campaign needs an absolutely stunning number of surrogate speakers. You might think that with all the speeches the candidate does that might come close to meeting the demand. But here was I, five levels down or something in the

“campaign,” and I got asked to give speeches or to take the Clinton side in debates all over the place.

**Gilmour:** How did you move from sending faxes and talking on the phone to making speeches?

**Blinder:** They asked. I would get a frantic phone call—from Sylvia Mathews usually. “We desperately need somebody Tuesday in Newport, Rhode Island. Can you get there?” I’d go, “Oh, God.” Either I could or I couldn’t, it was that way. It was never me soliciting.

**Gilmour:** But at what point did you go from being a casual advisor, somebody who was providing information, to being someone who was on their team?

**Blinder:** Really quickly. As the spring gave way to the summer, it became quite clear that Clinton was going to be the nominee, and then by June or July, whenever it was, he was the nominee. So then there was no question.

**Riley:** During the primary season had you had a preference among the candidates?

**Blinder:** Not much. Like most Americans, I didn’t know much about Bill Clinton. My involvement with the Clinton campaign really began when the primary season was basically over and he was basically the candidate.

I should have been clearer. When I was surrogate speaking and debating, it was always against a Bush representative, not against one of the other Democratic candidates. That was over.

**Riley:** Let me track you back then just a second, to the time when you were advising the other candidates. Can you tell us a little bit about your experiences doing that? Were you talking directly to the candidates at this time, were they making—

**Blinder:** It varied. Sometimes directly to the candidates, sometimes to a top staffer. I remember talking to Tom Harkin, Jay Rockefeller, who else? There were one or two others. They were interested in what the economy was going to look like during the campaign, and in what ideas I had. I’d recently written a book called *Growing Together*, which advocated a set of policies that would grow the economy and shrink income inequalities at the same time. I hope that’s an appealing combination to a Democratic candidate, and it was. So a couple of them wanted to talk to me about that and how they might make planks of a campaign out of something like that. It was that sort of thing. But most of the people I talked to decided not to run. I think Kerrey was one who decided to run. But I never had any heavy involvement with any of them until Clinton.

**Riley:** They would come down here to see you? You’d meet them in New York?

**Blinder:** No, they usually asked me to come to Washington.

**Riley:** Do you have any specific recollections from these people about being particularly impressed or unimpressed with some of the candidates?

**Blinder:** You mean me with them, not them with me?

**Riley:** Exactly. We'll ask them about their perceptions, but I'm just wondering—

**Blinder:** Not to belittle anyone else, but I have a very high regard for Jay Rockefeller. I think he's very thoughtful, a good legislator, but he decided not to run. I also had a very high regard for Bill Bradley, another who decided not to run at that stage and then decided to run later when it was inopportune.

**Weatherford:** Did you end up debating any [Ross] Perot representatives in this speechifying?

**Blinder:** I don't recall doing that. I may have, but I can't recall.

**Weatherford:** Did Bush or Perot in his campaign figure much in your sense of how Clinton was planning his strategy?

**Blinder:** I don't think so, but he did in the transition period. That's my belief. In the transition period, the strength of the Perot vote and the attribution of that strength to angst about the budget deficit had a very big effect on Clinton, I think. And it was certainly consonant with what he was hearing from his economic team. I do think Bill Clinton is a very good politician, a very keen observer of popular sentiment. And after all, there was a vote and this guy Perot got, what was it, 19% of the vote. This guy, who was a little bit wacky, got 19% of the vote. A politician as astute as Bill Clinton is not going to fail to notice that.

But I didn't really see any serious influence of that on what we were doing in the campaign. People often forget this, but they are looking through the filter of history. Candidate Bill Clinton did not really run on reducing the budget deficit in any strong way. That was not a major part of his campaign. It was all about investments and things like that, most of which never got done.

**Gilmour:** What was the role of economists in putting together his campaign issues?

**Blinder:** The *Putting People First* thing?

**Gilmour:** Yes.

**Blinder:** I think it was at one level substantial and at another level insubstantial. Let me explain. Behind a document like that a certain amount of number crunching has to be done, and that was done by economists. I remember Larry Katz, for example, who later wound up in the administration, did a lot of that. It was basically the people Gene Sperling knew who were called upon, "Could you help me with this? We need numbers on that."

**Gilmour:** Was Sperling a student of yours?

**Blinder:** No, I had just known him from generally being involved in Democratic politics. I don't have any specific recollection, but I'm sure I must have talked with Sperling at some time when Mario Cuomo was wondering whether to run. I don't believe I ever talked to Cuomo directly on

that, I probably talked to Sperling. Cuomo was Governor of New York then. So I knew him from that, and he knew other people that way. In that respect, there was pretty heavy involvement of economists.

When it came to putting the whole thing together, a key question was, do the parts really fit? Are the numbers really credible? I think a number of us economists were somewhat critical of some of the things in the document, but they went in anyway because they were needed. By the standards of political documents, that had very high integrity, but the standard is low. As I say in a lot of contexts, these things should be graded on the curve. If you grade that on the curve, it was an A in terms of economics. If you grade it on an absolute standard, it was probably a C.

**Riley:** When was the first time you met Bill Clinton?

**Blinder:** We had a meeting, which you probably heard about already, in Little Rock sometime in August of 1992. It was roughly when the Republican convention was going on.

**Riley:** So this would have been after, I can't remember if the Democratic—

**Blinder:** Yes, the Democrats went first. He was the nominee, and the Republicans were meeting to coronate George Bush to run for a second term. If you remember the dynamic of a campaign, when the other party's convention is going on, the other candidate disappears for a while, takes a few days of down time, because all the attention is going to be on the other. So Clinton was back in Little Rock taking what for him is down time, which means he was probably working only 18 hours a day or something like that. That gave him a chance to ask for a meeting with these curiosities from academia. So a bunch of us trekked down to Little Rock to meet the nominee.

**Riley:** You had not been to the convention then, I take it?

**Blinder:** I did not go to the '92 convention.

**Riley:** And were not involved in the platform or anything of that nature.

**Blinder:** No.

**Riley:** So you got to Little Rock. Can you tell us about that experience?

**Blinder:** Yes, we met in the Governor's mansion in Little Rock. I hope I won't leave anybody out. I'll start with the people who wound up in the administration, myself, Larry Summers, Laura Tyson. Then there was Paul Krugman, Jim Tobin, now deceased, from Yale. He was the only one there who was not angling for a job in the Clinton administration. I have this sinking feeling I'm leaving somebody out.

**Riley:** This is checkable.

**Blinder:** Yes, to my recollection that's who was there. Then a few of the politicals—Gene Sperling, of course, was the organizer and the host in some sense. I think a few of the politicals

who came in with Clinton wanted to see these curiosities. Who are these eggheads? I remember [George] Stephanopoulos dropped in, and Tom Donilon dropped in, and there may have been a few others. But they were all sort of catching their breath in Little Rock, waiting for the Republican convention to end. Then they were going to hit the road again.

**Riley:** Was there an agenda for the meeting, or was it Clinton—

**Blinder:** It was a pretty informal agenda. He wanted to hear our ideas about the budget and other things. He wanted to bounce some of his ideas off of us. I remember, for example, we had a spirited discussion about the decline of manufacturing and whether this was a big problem for the United States or not. Most of us gave the wrong answer to that, from Clinton's point of view. He thought it was, and most of us economists thought it wasn't. Laura Tyson thought it was. She scored a lot of points by saying that. It's hard for me to remember exactly. It was kind of a free-flowing Clintonian discussion.

**Weatherford:** Was there supposed to be a product?

**Blinder:** No, I don't think there was supposed to be a product. Probably the product from his point of view, and from Sperling's point of view, and I think this was perceived by lots of us, was that we were auditioning in case this became an administration. These were the economists who had been involved in his campaign up to then, one way or another. Just in case he won the White House, he wanted to meet some of these people because he'd have to staff a White House.

**Riley:** Were there any ideas in the campaign that you thought were bad ideas, either in the economics realm or in other areas that had economic consequences that you felt—

**Blinder:** No, I was pretty comfortable. I don't think they were bad ideas, but some were exaggerated. For example, I can remember one because I did a little work on it, and it's not a subject I knew a lot about, so I had to consult with some people who did. There was a large number put into *Putting People First*, which had, you may remember, a kind of rump budget in it, in a very rough way. There was a large number put into that budget for taxing foreign multinationals operating in the United States. We were going to raise all kinds of revenue. Politically, this is the greatest. It is exactly analogous to why hotels put on tourist taxes. You tax someone who is not in your electoral district, it's beautiful.

I looked at that number and I said, "Man, this sounds high." So I went and took the trouble to talk to some people who knew more about international taxation than I did to convince myself that this was way, way high. It's not that I thought it was a terrible idea, but that the amount of revenue we were going to get from this was nothing like what was in the document. When we finally got into the White House and actually made a budget, that thing became nickels and dimes instead of many billions.

**Gilmour:** What was your impression of Clinton's views of economics? What theories of economics seemed to motivate him?

**Blinder:** I don't think he had any theories. A lot of people said at the time—and I agreed, this view didn't originate with me—that he had a Governor's view of the economy rather than a President's view of the economy. That changed later. But you know Governors are into the nitty-gritties of programs. He knew huge amounts about Medicaid and things like that, much more than I, probably more than all of us put together knew, and many other programs that a Governor would get involved in. But a Governor doesn't have any reason to have the macro perspective, the national economy perspective. A Governor cares about losing manufacturing jobs in Arkansas.

**Gilmour:** So he wouldn't come to the table with specific views about the deficit or the role of taxes or capital gains or anything like that.

**Blinder:** Not very much. He's a smart fellow and had been hearing about lots of these things for a long time, but I definitely don't think he had strong views about the deficit. He knew the deficit was a big national problem. Everybody knew that. He knew he was hearing from everywhere, from the business community and from the economists, that this was something between a festering sore and a balloon that was blowing up and was going to pop. I had written in that period, and Charlie Schultze and others had popularized the "termites in the basement" analogy. But there were others who were much more cataclysmic, that this whole thing was going to cause a financial cataclysm. That was the range of opinion. He was very much aware of that.

But if you pressed him on details about the mechanisms, how this was all going to work, he wouldn't know. Later, he could answer that question really well. But at that point, I don't think he would have been able to answer that well. As I said, the campaign did not really run on deficit reduction to speak of. The perceived political wisdom at the time was that doing so was political poison. After all, deficit reduction is about cutting somebody's program or raising somebody's taxes. You don't have to have studied political science a lot to know that that's probably not a winning formula, and Clinton was very much aware of that. It was the Perot thing, I think, that changed that.

**Weatherford:** Was there an explicit commitment to educating the candidate?

**Blinder:** Well, we didn't have a lot of time. I'd say no. We didn't really have a lot of time with him. You don't get time with candidates to do that. Ironically, we got more time when he was President and in the transition.

**Weatherford:** Did you find that he picked up a sense of the macro context on his own or did you—One has the impression with [Walter] Heller, for instance, that he and JFK [John Fitzgerald Kennedy] actually sat down and he gave him a couple of macro lectures.

**Blinder:** We did with Clinton. I'm sure he picked it up from elsewhere also, he's a sponge for knowledge. But yes, he picked it up. I remember starting one presentation by saying, "I've been given the pedantic part of this briefing," and that's what I did. I went over the conceptualization of why we're worried about budget deficits and how you reduce them and what that might do to the economy. This was one of the Little Rock briefings we did.

**Riley:** Exactly, during the transition—

**Blinder:** In the transition. So he did sit there and listen to the conceptual part.

**Riley:** How much exposure would you have had to him during the election campaign? You said you—

**Blinder:** During the campaign not very much. To him personally, you mean?

**Riley:** You went to see him in Little Rock—

**Blinder:** I think that was the only time.

**Riley:** Okay.

**Blinder:** I think that was the only time during the campaign.

**Riley:** And from that point you became a surrogate speaker.

**Blinder:** I was a surrogate speaker even before that. I was a surrogate speaker for a few months before that and then continuing after that.

**Riley:** And you were involved with Gene Sperling on a fairly regular basis?

**Blinder:** Yes, Gene Sperling and Sylvia Mathews were the points of contact.

**Gilmour:** What kinds of audiences would you go before as a surrogate speaker?

**Blinder:** They'd be business audiences. I remember one was people involved in municipal government up at Harvard. I can't quite remember the auspices. I remember this because I debated this guy [Jim] Pinkerton, you remember him, he was in the Bush White House. He was like 6'9", I just remember he was so tall. I remember because he spoke first and he said, "I know the questions on your mind. Six foot nine, and no, I never played basketball." Then I got up and I said, "Five foot ten, and yes, I did play basketball." I just remember that. Mine were obviously not the big headline audiences. It was pretty far down the pecking order before you would get to me.

**Gilmour:** It sounds like these were often events where somebody would have arranged a forum and they wanted to have a representative for Bush and somebody for Clinton.

**Blinder:** That's exactly what they generally were, a representative from each campaign to come speak. Absolutely. I was doing that, I don't quite remember the timing in June, July, before I met Clinton and then continued in the campaign.

**Riley:** You've mentioned Gene Sperling's name several times. Elaborate a little bit on what he was doing from your perspective with the campaign and what is it about Gene Sperling that caused him to mesh so well with Bill Clinton.

**Blinder:** Well, starting with the first, his role, he was the economic issues director, which means he was, from my perspective and the perspective of Paul Krugman and Larry Summers and so on, the interface between us and the campaign. When we dealt with the campaign, we didn't deal with [James] Carville or Stephanopoulos. I think I talked to George once during the campaign; I don't think I ever talked to Carville. We dealt with Sperling. He'd want things like "What's the straight poop on this?" So we did, for example, talk about the question of how much revenue you could really raise from the foreign corporations. How far could we go? What could we say on this before really bending the truth beyond recognition? That sort of thing. He would send drafts of things, or Sylvia would, for comments, then ask us to do these surrogate speaking engagements.

As to what made him click so well with Clinton, this is just a hypothesis. First of all, he could work more hours than anybody. I think he worked more hours than Bill Clinton, if that's humanly possible. This guy is the total workaholic, just any time of day. I think Sylvia said their motto there was... I wish I could remember this. Have you talked to Sylvia yet?

**Riley:** Not yet.

**Blinder:** You'll talk to her. It was something like, "We never weep, we never sleep." She'll get it right. I don't think they ever did sleep. They were working all the time. So that was one reason. And second, Gene had a tremendous facility, and I only appreciated the full extent of it later in the administration, for meshing the politics, the policy, and the message. He's a great spinmeister, better than I realized at that early stage. I think that really helped. He could talk with us economists at a relatively technical level, not super-technical, but super-technical is really not involved in these things. Then he could talk to the politicals at their level, in their language, and phrase things that would resonate politically in a way that we academics aren't apt to do.

**Riley:** So in that sense, he had some of the same traits Clinton has.

**Blinder:** He did, yes. That's what I was clumsily trying to suggest is why I think he clicked with Clinton so much. You could see Clinton's reaction to him, he found him mildly amusing, always dogged, always there, acting like a rump politician sometimes, acting like a wonk other times. And yes, Bill Clinton has a lot of those traits.

**Riley:** Were you involved in debate preparation at all?

**Blinder:** I'm trying to remember. I get the [Al] Gore campaign confused with the Clinton campaign. Not in any serious way, it was nothing to negligible, not in any major way certainly. And I didn't attend any of those debates.

**Riley:** Right. Any other questions about the election period?

**Weatherford:** Move on to the transition?

**Riley:** Yes, let's move on. You actually had a formal role in the transition, is that correct?



**Blinder:** No, not a formal role. After he won the election a transition team was formed. I was not a member of that transition team. Laura Tyson was and Larry Summers sort of was, although he was dancing because he had—you already talked to Larry?

**Riley:** Yes.

**Blinder:** He had this job at the World Bank. I don't know quite how he danced that dance. But I wasn't on the team. Then after the Little Rock summit, Laura asked if I would join the council as a member. I sort of said no, and then I danced around that, and finally, I changed the answer to yes.

**Gilmour:** Why were you initially inclined not to join?

**Blinder:** It was probably, I'll admit, largely hubris. Larry Summers and I both thought we should have been named the chair of the Council of Economic Advisers. And the notion that I would sit as second fiddle... well, it took a long time for my male ego to swallow that. So I was not eager to do that, and I told this to lots of people in the transition. Bob Rubin was in the transition.

So then he started naming his team. Named Laura to be the chair of the Council of Economic Advisers, named Alice to be deputy director of the OMB. I didn't know Leon Panetta at the time. I mean, I knew him a little—I had testified in front of his committee—but I didn't really know him. But Alice had been a friend of mine since the '70s. So she called, "Come on and join." Then Bob Rubin called, "Why don't you join us?" And I was saying I don't really want to do this. I eventually got worn down. Actually, it took a long time.

The last caller was Al Gore, and I remember this very distinctly. He called. They told me Clinton was going to call himself to try to talk me into this, and I felt, *I'm sunk, because nobody says no to Bill Clinton*. But you may or may not remember this little piece of the campaign. There was a point in the transition where, because of his allergies, he came down with laryngitis. He could hardly talk. It was just then. This is December of '92. So I'm expecting this call from Clinton and the phone rings. Al Gore is on the phone instead, explaining to me that Clinton can't talk and Clinton asked him, Gore, if he would get me on the phone. I still was not convinced that I wanted to do this.

I remember this very well, because he asked the same question you did. I said something about playing second fiddle and he said, "Tell me about it." [laughter] That resonated with me a bit. He had a point. It was about then that I agreed to do it. We were actually going to Israel that night, I had plane tickets. That's why it had to be that day. I told him it was the last day before I was going to Israel for academic reasons that had been arranged a long time previously.

**Riley:** Were there other jobs in the government that you might have found attractive that you also had your eye on?

**Blinder:** No. The one I had my eye on was the CEA chair. After I didn't get that, I thought about what else might I want, and nothing seemed quite as appealing. There's a chief economist in the

OMB position, there's a chief economist in the Treasury, which Alicia Munell wound up in. The international position that Larry Summers first wound up in didn't seem a natural to me, given what I did and what I knew about. I knew something about it, but it was far from my specialty. So that wasn't a position I ever coveted. I did think about these other jobs. I remember once I had a conversation with Sperling after Laura had been named, and he said, "What else would you like?" There was nothing that really did appeal to me.

**Riley:** Did you contemplate the possibility of sitting out until she decided to move on? I mean, those positions are—

**Blinder:** I did. Yes, they rotate, nobody stays in these for that long. I did contemplate that. I think the deciding factor for me was that the great time to be in an administration is at the beginning. There's nothing like it. I told some of my friends—I told Roger Altman this, I wonder if he repeated it to you—that the policy phase of any administration is the first 18 months. After 18 months, you're into midterm elections. And then, as soon as the midterms are over, you're into the new presidential race. In any four-year period, you've got an 18-month policy phase, and if you miss that you missed it. I think that was the overwhelming factor that tipped me to get over my male hubris and just say yes and become part of this team at the most exciting time.

**Riley:** You mentioned Alice Rivlin's name. I wonder if her being in the position that she accepted made it easier for you to—

**Blinder:** A little bit—

**Riley:** To be maybe the second fiddle.

**Blinder:** Yes, Alice was one of the parade of people who called me to say, "Come on, join the team. It's a good team, it's fun. We're going to do good things." Yes, and I respect Alice's opinion a lot.

**Weatherford:** Could you talk about how the ideas in the campaign got shaped into a program during this transition? You've already touched on the deficit and that's something you've written about and I'd like to talk to you some more about that, but there's the investment, the stimulus, healthcare, the BTU [British thermal units] tax.

**Blinder:** There are many, many answers to that question. That's a long question, we ought to take it in pieces. But the two big answers to that question are Ross Perot, whom you touched on before, and the reality of number crunching.

Taking Perot first, I think it was Perot and other people—like Rubin and others talking to him in the transition period—that really convinced President-elect Clinton that he had to elevate deficit reduction to, if not number one on his priority list, at least close to number one—which had not been the case in the campaign. The second is the reality of number crunching. That is, now you had to go beyond *Putting People First*—a sort of rump budget that had about 12 lines—to a real budget with real numbers that would pass muster with the technicians at the—in our case, now we're the administration—the OMB. And at the Treasury, for the tax estimating. They wouldn't

just give you any number you wanted. They had models, and they gave you their true best estimates.

So we then had to put together a program that would add up. That was in the first instance. After you do all that—this is a very long story, only part of which I can remember—you meet the U.S. Congress. Then you really learn the meaning of “The President proposes and the Congress disposes.” That’s where the BTU tax turned into nothing, and the investments turned into nothing, and the stimulus was obliterated, and so on.

You want to think of this process, Steve, as going through two very distinct phases. The first was pre-Congress. If you remember how this went, we did the budget without the Congress and without the Cabinet basically. It was a small group: the Clinton economic team plus a few politicals did that whole budget by ourselves—with the technicians. We worked the day shift, and they worked the night shift, literally. We would get budget numbers dated time 3 A.M.—you know computers time and date them—we’d meet the next morning at 7 A.M., while those poor 3 A.M. guys got a few hours of sleep.

**Riley:** This is after you’re already in office?

**Blinder:** Already in office. What we could do in the transition was very limited. We didn’t have any staff, we didn’t have the resources, we didn’t have the access to the database.

**Riley:** But the important thing about the transition period is there ultimately appears to be an effort, a crystallized effort to do something about deficit reduction that didn’t clearly exist during the campaign period.

**Blinder:** Absolutely.

**Riley:** And for those of us who were on the outside, the great puzzle is how you get from point A to point B.

**Blinder:** Now some people point to a meeting at Blair House. I was not there, so you’ll have to hear about this from someone else. Some people point to that as the sort of magic moment.

**Riley:** Now this would have been in—

**Blinder:** In the transition. In December, when a number of people talked to Clinton about the deficit problem. Leon, I’m sure, was there and others were there. I was not there so I can’t speak to that. So I don’t really know where the magic moment was. But what I do know is by the time we had the first full-scale briefing for the President-elect in Little Rock and, if memory serves, that was the 7<sup>th</sup> of January (you can check that), he was already persuaded that the big deal was going to be deficit reduction.

**Riley:** You think by that meeting he’d already decided that.

**Blinder:** Definitely. The only questions were—because after all this was root canal politics—whose ox are you going to gore, how much, how, and what’s plan B? He was smart enough to know. I’m the one who warned him—I think in that briefing, but it might have been in the next one: this is related in [Bob] Woodward’s book—that if things go wrong, what you’ll probably have is a recession about the size of the one that George Bush experienced. He had a strong reaction to that. I mean, he was aware that there were hazards here, that if we didn’t get the bond market rally, if we didn’t get cooperation from the Fed [Federal Reserve Board]—and the Fed, remember, is very independent and Alan Greenspan was not known to be a Democrat—if that didn’t happen, there was a hazard that you raise taxes and cut spending and the economy is not that strong anyway, and you wind up with a recession.

So I felt it was our obligation to tell him. There were a number of people in the economic team who really weren’t eager to give this message to Clinton because they just wanted to make sure we reduced the deficit, and it was, “I don’t want him to hear this.” But I thought that was very irresponsible. He got elected President, not us, and he needed to hear this. So he did hear it. So that was the third thing that was on his mind, “What’s plan B? How do we get out of this if this causes a mess?” We never had to go into any depth or think seriously about plan B because things went well instead of badly. But that was the reason for having a stimulus piece in the plan. The notion, which I don’t think was economically naïve but was politically naïve, was that we could sell a package that said: because we’re promising so much long-run deficit reduction, we’re going to spend a little money up front to make sure the economy moves forward, not backward.

I think, to this day, that made economic sense. But it obviously didn’t make political sense. And even more germane to the demise of that program was the way it was concocted. That is—and this was political compromise again—instead of being a clean policy, “We’re going to do A and B, and that’s the way we’re going to stimulate the economy,” we had alphabet soup. You have probably seen the document. The stimulus package was described in the original, it probably ran ten pages—all little things—\$100 million there, \$200 million there, \$300 million there. It had no coherence and invited ridicule and accusations that it was pork and so on. I was very unhappy as an economist with what we put forward—not that we put forward a stimulus package, not of its rough size, but of the way it was composed, of a hundred little pieces.

**Weatherford:** Before you saw what Congress did to it, your intuition was it wasn’t going to sell.

**Blinder:** Oh, yes, way before. It had no message.

**Gilmour:** Woodward’s book makes a lot of the consciousness of the bond market. At what point did Clinton become educated about the role of the bond market?

**Blinder:** Right from the beginning, from January 7<sup>th</sup>, and maybe in December in things I wasn’t privy to. I just don’t know about that.

**Gilmour:** Even in the meetings in Little Rock after the election?

**Blinder:** Absolutely. At that January 7<sup>th</sup> briefing, I am certain that I made the point to him that the success of this program was predicated on precipitating a bond market rally, bringing down long-term interest rates. That was what was going to give the economy stimulus, and we couldn't guarantee that it would happen. That's exactly where this notion of a recession the size of the one in the Bush administration came in. So he was very much aware, from at least then if not before, that he was placing his chips on the bond market and on Alan Greenspan. Greenspan was going to control what the Fed did. He also was aware that here he was, this new, untested guy from Arkansas—remember, you're dealing with New York here when you're talking the bond market. So here's this guy from Arkansas, untested and a Democrat to boot. He was going to have to rely on the kindness of strangers in the bond market for his political salvation. So he knew he was taking a big risk here.

I think it is to his tremendous credit that he sized this up and decided to take the risk because he thought it was good policy. You know, a lot of bad things have been said about Bill Clinton over the years, but I really believe he decided to take this calculated risk because he thought it was good for the country. And, incidentally, if it proved to be good for the country, that would help him get reelected in '96. But that's the way you want a President to think. You do something that's good, four years later the good chickens come home to roost and you get reelected, and you don't worry so much about four weeks later. To my mind, that's the way you want your President to think, and I think that's the way he was thinking about it then.

**Gilmour:** As these policies were being devised, was there much pushing back from some of the campaign staff who were more involved in the *Putting People First*?

**Blinder:** Oh, yes.

**Gilmour:** How did they try to influence the debate?

**Blinder:** I would see only a little of it. I learned a lot from Woodward's book, because there was a whole aspect of this going on in the White House, the solarium meetings. I was never at any of those. But we would see them, the campaign people. They would sometimes come to the economic and budget meetings, starting with the Little Rock briefings, and they would start getting a little more specific about what would you cut, what tax would you raise, how would you get the campaign pledge of a middle-class tax cut into this budget. Our answer was, "You don't."

The politicals around the table were moaning and groaning and saying, "You promised this, you can't do this, they'll hate you in Macomb County, Michigan, if you do this. They'll hate you in Iowa if you do this." That's absolutely what we were seeing, and I think there was a more important side process going on between Clinton and the politicals in the White House that people like me were not invited to. So yes, there was tremendous—friendly, I think, this was not a tong war—friendly tension between the politicals and the policy wonks as we called ourselves, and Gene Sperling was the sort of bridge. He would be with the politicals, and then he'd come back to us and say, "They're griping about this. You can't do this." And we'd say, "You have to do this." And he'd go back to the politicals.

**Gilmour:** Was he pushing one way or the other?

**Riley:** Sperling?

**Gilmour:** Sperling.

**Blinder:** I think he was friendlier to deficit reduction, but what he really pushed for was to try to preserve the so-called investments, the spending pieces of the Clinton program. This is what got him labeled by Bob Rubin the “keeper of the torch,” because the “torch” was getting progressively extinguished as we tried to work on the budget. He would keep bringing up these things.

**Riley:** Can I ask you about your personal journey through this too? There was a piece in the briefing book that was an interview you’d done for a publication called *Challenge*. If you look at tab five it’s the third piece in there. It’s an interview that was published in September and October—

**Blinder:** Of ’92 was that?

**Riley:** Of ’92. I did a fairly quick reading of that, but there isn’t a great deal of indication in that particular publication that deficit reduction is something you had on your radar screen at the time. I’m wondering if you recall, were you also being influenced by the hard numbers that were coming out?

**Blinder:** Sure. This is fortunately dated, so I don’t have to remember, this is August 13, 1992. So my recollection is this is probably right around that Little Rock meeting with the candidate on August 18<sup>th</sup>. I could be wrong about that. It was right around the same time anyway. I’m pretty heavily involved in the campaign. Bill Clinton is the nominee. He’s got a platform. It gives lip service to deficit reduction but is not running on a serious deficit reduction platform. And I’m talking to Dick Bartells, in some sense a representative of the Clinton campaign, so I have to be relatively careful with what I say. I’m not literally a part of the Clinton campaign, so it’s not like the only thing I could say was *Putting People First*, and nothing else. This interview is not like that—

**Riley:** Exactly.

**Blinder:** I wasn’t about to say and nor, by the way, did I believe, that the only thing that matters is deficit reduction.

**Riley:** I guess what I’m trying to do is follow the paper trail, which seems to correlate to your own recollection, your own memory about the prominence of deficit reduction as you were moving through the campaign into the transition and so forth.

The other event we haven’t talked about is the economic summit in Little Rock. You made a presentation there—

**Blinder:** I did. I remember that Bill Clinton caused a titter and lots of people laughed when I put up a chart and he referred to it as a “very moving” chart. This was taken to be evidence of what a wonk he was at heart. He said, “I was moved by your chart,” or something like that.

**Riley:** Can you tell us a little bit about that event? Your perceptions about what was going on at the time and so forth?

**Blinder:** Sure. My perception was that this event was meant—and it succeeded very well—to display the President-elect at his best, that is, as smart, engaged, knowing the issues, able to engage in repartee with the experts who were streaming across. And Clinton talked a lot; he wasn’t just sitting back there and listening. It was also meant to show some bipartisanship. Not all of us who got speaking slots at that summit were Democrats, not all were supporters of Clinton. So I think those were the main purposes, and the third purpose was for him to listen to expert opinion. It’s conceivable, people have said, that that was one of the things that started moving him more toward deficit reduction. That may be true, but I don’t have any way of knowing that.

**Riley:** And it’s not something that was featured in your presentation, which was basically about—

**Blinder:** It was about growing.

**Riley:** And investment and human capital, which is something he seemed to find particularly moving.

**Blinder:** Yes, I was arguing that there’s a pro-growth policy that’s also equalizing. This is related to the little book *Growing Together* that I had done. Human capital investment, especially if you concentrate at the bottom, is going to be pro-productivity and pro-equality. This was the period in which at least some people worried about growing wage inequity, especially the wages at the bottom. Some of the data people looked at were grossly exaggerating the truth, but there was this view that average and lower wages had actually fallen absolutely over the previous decade or two. That really wasn’t true, but what was true was that they had grown at a measly rate compared to wages at the top. So there was a spreading out of the income distribution.

I think the “moving” chart was wages of high-school-educated versus college-educated labor or something like that, and the gap had grown tremendously.

**Riley:** Were you assigned the topic?

**Blinder:** More or less. I was assigned a spot and to talk generally about the economic situation and growth. Yes, that was my recollection, I was assigned the subject.

**Riley:** You’ve mentioned the January 7<sup>th</sup> meeting a couple of times, but I wonder if we could talk about that in a little more detail. Were you assigned the topic?

**Blinder:** Definitely. That was the one where I joked that I was assigned the pedantic part of this briefing.

**Riley:** Can you tell us about what went into the preparations for that meeting? Who were you working with, how were the—

**Blinder:** We didn't have any staff. I showed up at Clinton transition headquarters, I think it was on Vermont Avenue in Washington. I wish I could remember the date. It was a little before January 7<sup>th</sup>, probably in one of the closing days of December or right after New Year's. For all I know it was New Year's Day. We weren't taking any days off.

The CEA-in-waiting was Laura Tyson—in an office by herself, doing hand calculations with a calculator. So I said to Laura, "This is crazy, we have to get somebody else in here." So I was the second person in, and then I said, "We've got to have a kid economist." So I called some people at Brookings, and I got one of their research assistants to quit Brookings and come to work for the Clinton administration. That was Elizabeth Schneirov, who later wound up working for us at the CEA. Elizabeth started doing some of the things I found Laura doing. "Get the kid economist to do this."

Then David Cutler came down, who was then a young Harvard assistant professor, really smart. So he helped me somewhat. I was jumping up and back between Washington and Princeton then, trying to relocate my family, looking for housing. I had no staff resources to speak of. So the January 7<sup>th</sup> briefing was pretty much me winging it with some crude numbers, with some valuable help from Elizabeth and David.

The second one was about a week later—was it January 14<sup>th</sup>? I then had about another week. A week, relative to the prep time I'd had for January 7<sup>th</sup>, was a huge increment in time, about five times as much as I had had before. So I gave a much more polished presentation that went further. It had more numbers and more serious numbers than was the case on January 7<sup>th</sup>. But I was supposed to look at the macro outlook, what a thoroughgoing deficit reduction program might do to the macro outlook, with or without sympathetic reactions from the Fed and the bond market. That was my assignment.

**Riley:** Laura Tyson made the assignment to you?

**Blinder:** I think it was more Bob Rubin actually. Bob was orchestrating who would talk about what. My recollection is that it was Bob Rubin, but I could be wrong about that.

**Riley:** So, by that point in time, you had reached the conclusion, or Rubin and others in the group had reached the conclusion, that this was what was going to have to be on the top of the agenda and it was a question about whether you could sell it to the President or not?

**Blinder:** Exactly. Whether we could sell it to the President—or, almost more, to what extent we could sell it to the President. From the beginning, for one reason or another—I don't really remember the reasons, they're not important—the whole number conversation was focused on the amount of deficit reduction four years later. The "four" presumably comes from a



presidential term. It was not the silly numbers that we then started looking at and have looked at ever since—adding budgets up over a number of years. These are silly numbers, and they become sillier and sillier the more we sunset and phase in and phase out.

So we were looking at how much the program would reduce the budget deficit of fiscal year '97, and the issue from the beginning was how big that number was going to be. Was it going to be closer to 100 billion, or was it going to be closer to 150 or 160 or something? Finally, after a lot of wrangling up and back, we went for 140—a big number. On buses and airplanes and things, as we talked about this, we joked, or speculated, about what Clinton would sign off on. I thought he would sign off on a much smaller deficit reduction number once he saw the nasty things he had to do to get above 120.

**Weatherford:** You know, as I read through this material, I'm picking up three different kinds of arguments for deficit reduction. Your presentation looked more like an economist's and you've got a fairly continuous sort of macro model where the causal mechanisms are about lowering interest rates and raising investments and increasing productivity and real income and it goes very smoothly—

**Blinder:** And it's not about jobs.

**Weatherford:** And it's not about jobs. Laura, when she says things, she's mostly saying them to the press, and she talks about avoiding financial collapse—

**Blinder:** Yes.

**Weatherford:** —which sounds more like a sort of “off the cliff.”

**Blinder:** Yes.

**Weatherford:** Panetta, on the other hand, seems to see reducing the deficit as a way to forestall a congressional move toward a balanced budget amendment and an assertion of congressional dominance over the economic policy process and the end of any discretion for a Clinton Presidency. How did those, as you see it, feed into Clinton's decision-making? Was one of them more important? Did they just make a sort of mush all in the same direction?

**Blinder:** You're asking me to get inside his mind. I'll try a little bit. I don't say this with total confidence, but I think the “fall off the cliff” scenario, which was sort of the Rubin/Altman scenario, resonated most with Clinton. The notion that this was about boosting the investment share of GDP [Gross Domestic Product], thereby having a marginal favorable effect on productivity and real wages, was okay. But I don't think that excited him, and he certainly didn't think that would excite any political passions. You weren't going to be able to sell this tough program on that. He was probably right about that.

It was the cataclysm scenario that enabled him and others to speak of this as a jobs program. Because, if you have a cataclysm, you probably have a serious recession, and that costs a lot of jobs. And if you can avert that, you can with a straight face claim that this is a jobs program, that

we're keeping jobs here instead of letting them fall there. You shouldn't think any of us thought that we would ignite such a rally by doing this—that the job creation numbers would come in the way they did. Nobody imagined that.

I do think it was the inchoate financial cataclysm scenario—it was never very clear in my mind how this was supposed to happen—that persuaded Clinton more than the others. That's what I think.

**Riley:** We actually have testimony—obviously I can't reveal the sources. We have testimony that your presentations in January were actually the crystallizing moment.

**Blinder:** That's very flattering. I didn't see it that way, but I don't know. I'd love to claim credit for it, but I'm not sure in all honesty I feel that way.

**Riley:** That presentation would not have been a presidential record so it wouldn't be generally available. Do you happen to still have a copy of it?

**Blinder:** I might. I might have it somewhere in my office.

**Riley:** Think about whether you might be willing to append that to the transcript. I think it could be very valuable.

**Blinder:** The January 7<sup>th</sup> and the January 14<sup>th</sup>?

**Riley:** I'm assuming it wouldn't be a PowerPoint presentation, though it might have been.

**Blinder:** No, there were a couple of low-tech slides to show on a screen. I'm not sure PowerPoint was invented yet, but I certainly didn't know how to use it.

**Gilmour:** It might have been but it was not ubiquitous yet.

**Blinder:** It was definitely not a PowerPoint presentation, but there was a handout and there were some slides to show on a screen.

**Riley:** It could be a very valuable addition to the record and it would be a natural place—

**Blinder:** I think I probably do have it.

**Riley:** Good. You said you'd read Bob Woodward's account of this period. Did he interview you?

**Blinder:** Yes, extensively.

**Riley:** And do you find the account persuasive or is it accurate insofar as your own personal recollections of this period?

**Blinder:** The part of it that I saw, yes. I read the Woodward book probably the day after it was published. He actually brought a copy to my house himself. I sat down that weekend and read it immediately—for obvious reasons. So it's been a long time since I read it. But my recollection of the book describes a two-track process of meeting with the policy wonks and then these other meetings with the politicals. The meetings with the politicals I had no knowledge of. So I have no judgment on how accurate they were. Woodward's book got down to pillow talk between Clinton and Hillary [Rodham Clinton], and I certainly don't know anything about that. You do know, there are only two possible sources for that.

**Riley:** We hope.

**Blinder:** Monica [Lewinsky] wasn't around yet. The parts that were about the economic team's meetings, I thought were very, very accurate. The only part that I questioned Woodward on, and he then later showed me the proof—he's a good reporter—was the notion that the \$140 billion number, which is that fourth-year deficit annual target that we settled on, came from Alan Greenspan. I never heard that in any of our meetings, never ever. But one day it was kind of anointed. I remember one White House meeting we came in and we were all around the table, and somehow it had been decided that 140 was the number. And Laura and I looked at each other, *Where did that come from?* And it was never attributed to Alan Greenspan in any of those meetings that I attended.

So I said this to Woodward. I said, "I think you've greatly exaggerated the role of Alan Greenspan, I never saw anything like that." He then showed me documents at a subsequent meeting with him.

**Gilmour:** What was the nature of those documents?

**Blinder:** I'm trying to think. I don't want to reveal any confidences here. They were copies of handouts at the meetings with the handwriting of some of the participants saying something to the effect of "Greenspan says 140."

**Gilmour:** That's very interesting because I was curious about exactly that point, and I asked people and the consensus mostly is that Woodward had made up that part about Greenspan communicating with the administration.

**Blinder:** I called him on it, and he showed me convincing evidence. But part of the deal when he showed me, is I can't reveal what he showed me. But the point is, it was very subtle, and I'm glad to hear others have the same recollection. It was just never around the table that "This is the Greenspan number and Greenspan says if you don't hit 140, it will be considered a mouse." There was never any discussion like that in my presence. And I was there at all these big meetings.

**Weatherford:** Is the sequel that if you hit 140, the Fed will hold rates or—

**Blinder:** No, but there was a subtle inference that that number would get Greenspan's blessing, and Greenspan's blessing would be awfully nice to have. And you remember he did sit there in

the gallery, and he did bless the program, and that was very nice to have. But all of this is after the fact. I'm telling you, we sat around these meetings, both in Little Rock and then in the White House, and Alan Greenspan's number was never invoked.

**Riley:** This is very consistent with what we've heard elsewhere. And in fact, there have been sources who've told us that Woodward had basically created a fiction—

**Blinder:** That's what I thought.

**Riley:** —by writing this, and it's fascinating to hear that in fact there is some hard evidence.

**Blinder:** Woodward persuaded me.

**Riley:** Because Greenspan's role, in retrospect, looks to be fairly powerful, but one has difficulty, at least at this stage without access to documents and so forth, identifying exactly what that—

**Blinder:** Yes, I think you'll find it very hard unless you persuade Bob Woodward to give you his evidence.

**Riley:** Well, we may actually do that. He's on our governing council and has expressed a great interest in presidential oral history and wants to come down and talk with us about our methodology. So perhaps I'll say, "We'll show you ours if you'll show us yours."

**Blinder:** Well, he showed it to me.

**Gilmour:** Was there a personal conversation between Greenspan and Clinton behind this?

**Blinder:** Not to my knowledge. Now there may have been. I was not in a position that I would know every conversation Clinton had, but to my knowledge there was not.

**Riley:** The question that I was going to pose was about Lloyd Bentsen because in his book—

**Blinder:** Yes, there were many with Bentsen and Rubin. My view was that Bentsen and Rubin were the conduits. But maybe there was a Clinton/Greenspan conversation, I just don't know. And it was never brought up. These meetings that I'm talking about, Clinton was always there, for hours with us and he never once said, "Greenspan told me..."

**Riley:** But it was perfectly consistent, in fact, it was helping you prove the case that you were making in your January presentation.

**Blinder:** Definitely.

**Riley:** So maybe that's why some people feel that your presentation was a crystallizing event, without knowing the full—

**Blinder:** Well, it may have been in that sense, because I made it very clear to the President-elect that he needed, as I said before, the cooperation of the bond market and/or Alan Greenspan to make this work, probably both. Otherwise there was going to be big trouble. If he then heard from Greenspan, “Do this number. I will bless it and that will help you get the bond market”—I don’t know that this happened but you could see how that would—Clinton would say, “That sounds better, we’d better keep Greenspan on our side.”

But even if such a conversation never happened, it was emphasized to Clinton time and time again by me and by others that our hands were in the fate of the bond market and the Fed. This was the genesis of Clinton’s famous “We’re all [Dwight D.] Eisenhower Republicans now” remark. So regardless of whether there was ever any Clinton/Greenspan huddle, this thought was very much in his head. And I guess I’m the one who put it there.

**Weatherford:** We touched just a little on Clinton’s political and economic sophistication. Did you talk to him about credibility in the economist’s sense, or was it just “Alan says it’s \$140 billion and we have to go with what he says.”

**Blinder:** No, we did talk about credibility a lot. I think a lot of things that aren’t so much appreciated were done in the first Clinton budget to give it the credibility to help induce the bond market reaction that it induced. So first of all—at my age, whenever I try to make a list, I always leave something out; I have written these down in a book that Janet Yellen and I wrote—it was bigger than expected. We surprised him on the up side. Secondly, there was essentially no smoke and mirrors. Those were real numbers. And the Congress and, more importantly, Wall Street, had been used to smoke-and-mirrors budgets for 12 years through Reagan and Bush. They got a little bit better with Bush. But the markets were used to getting numbers that they wouldn’t believe. And then we gave them numbers, and they believed them because they looked right. They added up.

Thirdly, he was willing to sacrifice some of the things that were dear to him, that he had run on, like the middle-class tax cut. This was a big thing for a candidate to swallow. One of the things I learned in this process is that candidates take their campaign promises very seriously. He did take that very seriously, and he did not like giving it up. Then there were what I like to call the ceremonial oxen taken out for goring, of which the quintessential example was that we cut Social Security benefits. We did it by raising the taxation. This is a *Democratic* administration cutting Social Security benefits. This was an eye opener. I thought that was very important to have some things like that in the budget, and I said so at one or more of these budget meetings.

Then finally—as I say, I’m probably leaving something out—there was the decision, which wound up a presidential decision because the people under him were disagreeing, to use the CBO macroeconomic forecast, even after we had done all this work to do our own economic forecast, for one reason: it was more pessimistic than ours, and would therefore make the budget deficit reduction job harder rather than easier. That was a presidential decision. We had a meeting and he heard the arguments for and against doing it and he decided, for credibility reasons clearly, to raise the bar and make his job harder rather than easier.

Oh, I did leave something out: the energy tax. Instead of a middle-class tax cut, we had an energy tax. All of this, I think, gave the impression to the bond market that we were really serious about this. Notice that while we also originally came out with a stimulus program that was later rejected by the Congress, we nonetheless won instant credibility in the bond market. We precipitated a bond market rally virtually instantly, even though the stimulus package was in there. So I think the economics and the financial aspects of doing that sort of a two-step—one step this way and then a big step the other way—it worked. It made sense. It made sense to economists, and it made sense to the bond market. But it didn't make political sense.

**Riley:** Why don't we take a five-minute break and we'll come back.

**Blinder:** That will be great.

[BREAK]

**Weatherford:** We've been talking about the FY [fiscal year] '94 budget in the '93 period. One of the things that interested me, and it may just be a very short story, is how the BTU tax got into the budget—

**Blinder:** And then out.

**Weatherford:** And out, and how sad you and the CEA were to lose it.

**Blinder:** The get-in is really easy. Al Gore. Everybody knows that. It went this way. As we started putting this budget together, it was pretty clear there was a need for revenue. It was clear that the income tax increases were not going to go further down the income distribution than where they were, roughly the upper 2% of income recipients, because after all, Clinton had been running on a middle-class tax cut. He's certainly not going to raise income taxes on the middle class. And we were not going to find politically palatable spending cuts that were sufficient to hit the kind of number we were looking at, regardless of whether that number was 125 or 140 or 160. We were not going to get in that ballpark with just the upper income tax increase and spending cuts. So there was going to be need for more revenue someplace. That's A.

And then B. Al Gore, as you know, is a big conservationist, had been for a long time. *Earth in the Balance* was new then. This was his pet top policy. And it made sense to us economists. Pollution creates a negative externality, and that's the kind of thing you want to put a tax on.

**Gilmour:** I think I recall that there was also discussion of a carbon tax.

**Blinder:** It was first going to be a carbon tax. Gore's original proposal was for a carbon tax, and we liked that the best.

**Gilmour:** From his standpoint that made much more sense. Why the switch to the BTU tax?

**Blinder:** Aluminum and West Virginia. That was the basic answer. When the technicians down in the basement of the Treasury started working on the incidence, who would bear the carbon tax, it was immediately clear that there goes West Virginia—

**Riley:** And for those reading the transcript 50 years from now, the name Robert Byrd may not be familiar—

**Blinder:** That's right, and Senator Byrd is a force of nature.

**Gilmour:** What was the connection with aluminum?

**Blinder:** I may have been wrong there. Aluminum is a gigantic consumer of energy. That was a very big problem with any energy tax. But when you looked at the carbon tax and looked across energy sources, it fell incredibly heavily on coal. The first step in the analysis is to estimate how much the prices of various types of energy would increase once you introduced a carbon tax of whatever, \$100 a ton, or \$25 a ton—I can't remember the number we were playing with at the time. You would see that it would raise the price of motor vehicle fuel by whatever, 8%, and home heating oil by 9% and coal 30%, or something like that.

But that made the most economic sense. There's a reason that coal was hit hardest: because it produces the most carbon. So this was not a big shock to us. But when you do a political rather than an economic or scientific calculus on that, it doesn't look very good. It looks unfair. And you were going to lose Robert Byrd, who was the head, I think at that point was still the head of the Appropriations Committee, wasn't he?

**Gilmour:** I think so.

**Blinder:** Democrats controlled the Congress, and I think he was the chairman of Appropriations. Well, you want the chairman of Appropriations on your side, and even if he wasn't chairman, you want Robert Byrd on your side.

So the original proposal, for very good economic and scientific reasons, was for a carbon tax. The BTU tax moderated the hit on coal somewhat. But it was still hit pretty hard. And the BTU tax generally came reasonably close in terms of its economic impact to a carbon tax. But it wasn't a carbon tax, and in particular was lighter on coal than a carbon tax should be. And that's why the proposal wound up a BTU tax. That all happened inside the White House before it went—

**Riley:** Who would you say would be the crucial figure in terms of getting the President to sign off on a tax increase at this point?

**Blinder:** A tax increase at all.

**Riley:** Was it just the numbers were—

**Blinder:** Yes, I think the numbers dictated it. This is why they were all tied up together. This is one of the reasons I thought he wouldn't go for as much deficit reduction as he eventually did go for. For as we started to put the pieces together, it just became very clear that there was going to be a revenue piece here, if you were going to meet the numbers, that would be paid by people in the lower 98% of the income distribution. It was not only the upper 2%. The politics were nifty for the upper 2%. Clinton didn't blink about that. That was fine, and it polled great. We're living in a different world now, strangely, but that was not a difficult thing politically then. A tax that would be paid by the middle class was a very difficult thing politically, but it was all tied up in meeting the number. If you were going to meet the number, there was going to be a revenue piece.

**Riley:** By this point the political people have conceded that the battle has been lost? They're not raising the objections—

**Blinder:** On the BTU tax?

**Riley:** Stephanopoulos and Sperling—

**Blinder:** I just don't remember. That's a good question, but I just don't remember the timing of that. I think the answer is no, it hadn't been lost.

Let me put it this way. You can't really know what you think about the numerical targets, say 125 or 140, until you see the pieces that you need to make it work. So when it was clear we needed a piece like that to make it work, at that point the number had not been decided. So now I do remember the answer to your question. And the politicals were worried about it.

I myself didn't think it was such a great idea for a different reason. Not because I don't think that that's a good way to raise tax revenue. I do. But when you thought about both the politics and the administrative burden, I was very much unconvinced that it made sense at the low level we were going to talk about putting in this tax. This is a brand-new tax; we're not collecting it now. So you need a whole new apparatus to collect it. If I remember the numbers correctly, and I'm sure they're in things you've seen, it was going to raise about \$25 billion a year, something like that. I was not convinced that it was such a good idea to pay the political cost, and to build the administrative apparatus for collection and monitoring, for \$25 billion a year. This required a lot of monitoring.

**Riley:** Sure.

**Blinder:** To collect that little revenue. So my attitude is either you should do it bigger, a higher tax—and of course the politicals said, forget about that—or work on some other sort of tax.

**Riley:** Did you have some in mind that you were floating at the time or—

**Blinder:** It's a good and a fair question, but I can't recall that I did.

**Riley:** The documents, I'm sure, will speak to that.



**Weatherford:** One of the other little pieces of the budget, which you touched on before, was the stimulus and part of its weakness was that it was hard to sell because it wasn't coherent. But at the end [Bob] Dole and others argued that the condition of the economy had changed enough that it wasn't needed.

**Blinder:** Yes.

**Weatherford:** What did the CEA think about that? Were you guys sorry to have lost the stimulus?

**Blinder:** We were sorry to have lost it. It turned out in retrospect that the economy picked up steam very strongly. But at the time we were doing this, we didn't know we were going to have that kind of bond market rally. We didn't know we were going to have that sort of economy.

In the middle of 1993, I remember meetings with David Gergen, fretting a lot about the economy. Was this going to work? Were we going to go downhill? It wasn't looking that good early on. So, with the wisdom of hindsight, we didn't need it. It was not at all obvious in January that we didn't need it. I was personally, I think we all were, quite chagrined when it went down. I think the "didn't need it" was an excuse, and the game that Dole was playing was to pin a defeat on the newly elected President and try to drag him down.

**Riley:** Your concern was an economist's concern about the contractionary nature of deficit reduction?

**Blinder:** Yes, we were going for a very contractionary policy in an economy that we didn't think at that point had a strong head of steam, and we wanted to cushion the blow. Actually more than cushion the blow. This policy was actually going to be, in its very early days, a net stimulus because the deficit reduction mostly came later. A small stimulus, but a net stimulus—and then a fiscal contraction following it. So it's a subtle policy design, too subtle by half, I think, for public consumption, but very sensible economically. And, as I said, it worked with the bond market. They saw that.

**Gilmour:** The Social Security tax must have been controversial within the administration.

**Blinder:** Yes, very. It was one of the things I made a little side bet with Joe Minarik about—that Clinton would never agree to it.

**Gilmour:** Who was in favor of that?

**Blinder:** I don't really remember. In general, within a team that was set to do deficit reduction, there was a hawk/dove spectrum.

**Riley:** Can you tell us who was—

**Blinder:** Sure. On the very dovish side, you had Bob Reich, Ron Brown, and most of the politicals—George Stephanopoulos and others when they chimed in. On the hawkish end, you had Panetta and Rivlin, who were the most hawkish, and probably then, as you come in a little bit less hawkish than that, you have Summers and Altman.

**Riley:** Bentsen?

**Blinder:** And Bentsen, yes, the Treasury. Then a little bit in from them was probably us, the CEA, Laura and me. There was no Joe Stiglitz at this point, he came later.

**Gilmour:** What convinced Clinton to go along with the Social Security tax increase, or the tax on Social Security benefits?

**Blinder:** I think it was a case of him balancing all the considerations in this debate over what number we should pick for the fiscal '97 budget deficit target. He came down more on the hawkish than the dovish side of that debate—the 140 number we settled on was on the hefty end of the range. I can't quite remember the range we were debating at that point. One forty wasn't the heftiest, but it was on the hefty end.

So that starts dictating a lot. You've got an ambitious target to meet, which says, among other things, you need some revenue. The other consideration was the credibility issue. I and others were making the point, just in general, that we had to have some things in here that would show we were serious—by doing things that you don't think Democrats would do, like cutting some social programs, and raising taxes. This was a cut in Social Security done as a tax increase, a very non-Democratic thing to do. And I think it generated relatively little money. It wasn't a lot of money, but when you come down to the end, \$1 and \$2 and \$3 and \$5 billion items are needed to try to make your target. It bought us a lot of credibility, and it was tailored not to put any burden on the low-income people. To say it hit only on high-income people is not right; I think you only had to be over, I'm forgetting now, \$32,000 a year to have to pay this tax. So this is hardly high-income people. But the very low-income people were all protected, they didn't pay a nickel of it.

**Weatherford:** One last one. In this context, about credibility and putting a package together that had this stimulus up front, cutting revenue, increasing revenue in the long run, was keeping healthcare out a no-brainer or was there a real fight over that?

**Blinder:** It was a no-brainer for the economic team, but there was a real fight over it. The claim that was coming from Ira Magaziner, who was at a few of these meetings but then dropped out of the process to do healthcare, was that he could deliver a healthcare plan that would actually save budgetary dollars.

**Weatherford:** In the short run?

**Blinder:** Yes, right away, within the four-year budget framework that we were working on. Unanimously, the economic team greeted that claim with Bronx cheers: "What are you smoking?" Ira kept wanting to filter into the budget numbers some saving from healthcare. And,

unanimously, the economic team said, “That’s ridiculous. If we’re going to have any credibility at all, you’re going to blow it completely away.” The question was how much more money healthcare was going to cost, not how much it was going to save.

**Weatherford:** So this was an instance of the economists beating—

**Blinder:** We won that one.

**Weatherford:** —some policy, political people.

**Blinder:** Yes, absolutely.

**Riley:** When you were listing your spectrum a minute ago, you said you were prone when you’re giving lists to omit names, but sometimes we learn interesting things by omissions and that is, Bob Rubin’s name didn’t appear.

**Blinder:** That was deliberate.

**Riley:** I want to ask you about your deliberate omission of Bob Rubin.

**Blinder:** Bob Rubin viewed his job then as the organizer. He orchestrated these meetings as the honest broker and basically did not insinuate his opinion into it. I never knew where he stood on a lot of these issues. Now whether he was then privately whispering things to Clinton, I don’t know. He may have been. I wasn’t witness to that. There were any number of times when I and others tried to say, “Come on, Bob, where do you...?” And you really couldn’t get him to—he’s a poker player, a great poker player.

**Riley:** We’ve been focusing up to this point mostly on the policy side of things, and this is an easy segue into the institutional sets of questions. How was the NEC [National Economic Council] viewed within the new administration? Coming in as somebody who was to participate in this and be a leading figure in the CEA at the time, were you worried about the existence of this alternative shop?

**Blinder:** Oh, yes. We viewed it as a mortal threat. It was a Clinton campaign pledge that he was going to establish this thing, in some sense on a par with the NSC [National Security Council], to really elevate the importance.

**Riley:** Do you know who was pushing him to do this?

**Blinder:** Bob Reich.

**Riley:** Is that right?

**Blinder:** I’m pretty sure this was a Bob Reich idea. I believe that’s where it originated. We viewed this as a mortal threat to the CEA on several levels. First of all, in previous administrations there was nobody standing between the head of the CEA and the President of the

United States. The head of the CEA reported directly to the President of the United States. Now that sounds better than it is, because in some administrations the head of the CEA hardly ever saw the President of the United States. The President just wasn't interested. But in terms of the org chart, there was nobody between them, except you might say the White House Chief of Staff, who was between the President and everybody. But basically nobody. So now the head of the NEC is going to be intervening. You have an org chart where the head of the CEA, who is technically a Cabinet-level officer, is reporting to the head of the NEC, who is White House staff. The NEC head is going to stand between the CEA chairman and the President. So that was viewed as a mortal threat.

The second worry was that we had imagined the NEC would staff up with a bunch of economists who would then start doing the work of the CEA. We sort of developed a truce with Rubin that he would not put economists on his staff, and he was almost true to that. I think Heather Ross was the only economist on the original NEC staff. That changed later. So I think that one we handled pretty well. We worked out a truce and it worked. But I don't think there was any doubt that the existence of what is now the National Economic Advisor, and it was Bob Rubin originally, diminished the stature of the chair of the CEA.

**Weatherford:** Was there a division of labor?

**Blinder:** Yes, there was supposed to be a division of labor.

**Weatherford:** Was it an explicit division of labor?

**Blinder:** Yes, very explicit. We were supposed to do the analysis, and they were supposed to do the organization, call the meetings, and coordinate the organization and the politics. It was a sensible division of labor, and I think in large measure it worked that way. That's the good news. The bad news is that, in the nature of things in Washington, the analysis is not that important and the organization and the politics are the important things.

**Riley:** Did you perceive a change over time in the administration, maybe not during your time in the White House, but as somebody who would have been observing things fairly closely after you left? After Rubin's departure from the NEC, do you feel like that role as an honest broker began to fade and that there was a—

**Blinder:** A bit, especially after—Rubin was replaced by Laura Tyson as the National Economic Advisor. She was an economist. So if you're going to have a division of labor—that the NEC does the organization and the politics, and the CEA does the economics—well, wait a second, we just moved the head of the CEA to be the head of the NEC, so you're already violating that division. Then, when Gene Sperling became head of the NEC, I think all semblance of that disappeared, and the role of the CEA started just diminishing and diminishing and diminishing.

**Riley:** Because Sperling was more inclined to be a—

**Blinder:** Do everything. He grabbed people like Peter Orszag, who was CEA staff, to work at the NEC. Peter's terrific. And Gene's a whirling dervish. You can't get to the office earlier than he does, you can't leave later, that's impossible.

**Riley:** Did this play any role in your own decision making? You were telling about your reluctance to come to Washington in the first place. The fact that there's an NEC in existence that may serve as a level of—

**Blinder:** A little bit, but minor. I wouldn't say that was major, a very little bit.

**Gilmour:** Could you talk about your role in the CEA and the division of responsibility among you and the other members and the chair?

**Blinder:** Sure. The history of the Clinton CEA was very unusual for two reasons. First of all, it was the beginning of an administration—before things have ossified and calcified and bureaucratized. So that meant, for example, that all the most important meetings that happened with the President were around a table this size, with this many people. Imagine this table filled with people. I'm sitting there even though I'm not very high ranked in government. I'm just a member, I'm not even the chairman of the CEA, but I'm there. The Secretary of the Treasury is there, the Secretary of Labor is there, and I'm there. That's not normal for a *member* of the CEA. The chair of the CEA should have a seat at that table.

**Riley:** I'm going to interrupt and ask—but don't lose your train of thought on this—because one of the criticisms of the earliest days of the Clinton administration is that there was an absence of discipline and too many people in the room.

**Blinder:** I heard that a lot. I very much disagree with that. It suited Clinton's style and benefited the policy to have somewhat raucous, heavily attended meetings where he would hear from a lot of people, including dissenting views. The biggest problem in government, I believe, is a President who surrounds himself with a small number of like-minded people, all of whom say the same thing. This is the recipe for total catastrophe. It can lead to good things too. But the way an economist would put it, it's a risk-loving strategy. You don't have a diversified portfolio. It's like putting all of your retirement money into one stock. It's stupid. It could be great if you happened to pick Wal-Mart, wonderful. But you could also pick Lucent and have a total catastrophe. My view is that it's situations like that, Lyndon Johnson and Vietnam for example, that lead to the total gigantic catastrophes in government, the kinds of things that historians later look at and say, "How could they have done that? What were they thinking?" The basic answer is there was only one opinion at the table.

Clinton was the opposite of that, and I thought that was terrific as long as you have a President who has the quickness and subtlety of mind to handle something like that—and he did. So I think it was very beneficial to Clinton. It was also great for morale. At some of these meetings I'm describing, I was sitting at the table, but then there were the back benchers—another 20 people in the room. They're not supposed to talk, but it's doing a tremendous bit for their morale that they're there, watching history being made with the President of the United States. So it was good even for that. Furthermore, they hear what is said. So when we walk back to our offices,

they talk to us and say, “Did you hear what so-and-so said? I don’t think that was right.” I think there were tremendous benefits.

**Gilmour:** To follow up on that, one of the problems with having freewheeling meetings, people allege, is that it made it difficult for Clinton to make up his mind. Did you observe any of that or was he sufficiently decisive?

**Blinder:** It’s neither. I don’t think it made it difficult for Clinton to make up his mind, except to the extent it should. Some questions are hard, and there are a lot of arguments pro and con. And that’s what we pay the President for. So there’s a sense in which the criticism is true, but I think in that sense it should be that way. The problem with Clinton is that he had a tendency—we saw this less on the economic side, but much more on healthcare—to agree with the last person to talk to him. So you might think you had a decision, and then you would find out you didn’t have a decision because someone else got in there after you. This happened a lot in the healthcare business. I think that was a problem of Clinton’s personal style.

**Gilmour:** Let’s go back to the organization at the CEA. You had an unusual level of access.

**Blinder:** I had a very unusual level of access. The second factor was that Laura Tyson was a very unusual choice for the chair, in that the chair of the CEA had virtually always been a macroeconomist involved with the kinds of things we were talking about: monetary policy, fiscal policy, the forecast, big picture issues. Laura was not that. She subsequently learned a lot, and was a lot better at it after a year or two. But in the early going, I had to do that stuff. She was an international trade specialist and also somewhat of an expert on—it turned out to be something you don’t need expertise on—Soviet-type economies. That’s what her Ph.D. dissertation was about, a lot of her academic work was about that, and then the USSR disappeared from the face of the earth. So macro modeling and things like that, which I had been doing for my whole career, were not what Laura had been doing for her career. So she needed me.

Secondly, she was an inclusive person. That’s what made her nice to work with. There was no “I’m going to this meeting, it’s above your grade level, you’re not coming” attitude. That wasn’t her. It is the proclivity of a lot of people, but it was not her proclivity. Her proclivity was always, if there was a question whether anybody as low ranked as me should be in there, she would push to get me in. That was very good of her, and it was very good for me. So it was a very symbiotic relationship.

**Gilmour:** In the advising process, what kind of information did Clinton want from the CEA and how could you find out what he wanted?

**Blinder:** Sometimes he would send us back missives with his scribble. It was really hard to read his handwriting, and we would pore over it, asking questions. He was a voracious reader. When he did this I don’t know, it must have been three, four in the morning. I know I didn’t have any time to read *The New Yorker* and *The Atlantic* and things. But this guy, he was reading them and he would say, “Is this true? Look into this.” We would get things like that. To this day, I can’t imagine how he found time to do that, but he did.

Secondly, we would send him memoranda on what was going on in the economy and sometimes they'd come back with questions. Sometimes he'd pick up the phone and call Laura with a question, or someone on his behalf would call one of us. Gene Sperling would call me and say, "The President would like to know about so-and-so." In addition to that, with the help of Al Gore—this was not true at the very beginning, I can't quite remember the timing of it but you've probably seen this someplace—we started the Weekly Economic Briefing, where we would then start peppering him, so to speak, with things we thought he would like to or should know about. And it was interactive. They were face-to-face meetings. We would circulate this piece of paper and then have a face-to-face meeting with him, and you would hear from the President face to face. And I was at all these things.

**Riley:** Was this just the CEA or—

**Blinder:** Well, you know, if any of you have kids that played soccer, probably all of you do. They all want to be around the ball. It was supposed to be just the CEA, but a lot of people wanted to be around the ball. If you have a face-to-face meeting in the Oval with the President, other people want to be there. Typically, Bob Rubin would be there, and Mack McLarty would be there. Stephanopoulos would often be there, Leon Panetta would often be there. Larry Summers always wanted to be there, but usually wasn't. His day came later. A lot of people wanted to be there.

**Riley:** But it was your show?

**Blinder:** It was our show.

**Riley:** You were the one making the presentation.

**Blinder:** It was our document, and this hour or half an hour, I can't remember now, was set aside on the President's schedule to discuss whatever about the economic briefing he wanted to discuss. Laura would usually start off. We had a feature story, so she would probably start off with the feature story. And Al Gore was always there.

**Weatherford:** And all three of you attended, it wasn't just Laura.

**Blinder:** All three of us normally attended, that's right.

**Riley:** After Stiglitz.

**Blinder:** After Stiglitz. I can't remember when the WEB [Weekly Economic Briefing] started. It was certainly not me, believe me, we couldn't have coped with that in the early months of the administration.

**Gilmour:** What kind of process was there for deciding what would go in the WEB and what would be the number-one story?

**Blinder:** We would get suggestions from staff. The chief staff guy who was doing this was Matthew Shapiro. We put him in charge as the editor of the WEB. He was before and is now professor at the University of Michigan. He and other staff would make suggestions. He would meet with Laura and Joe and me—or as many of us as could get together; it's a very hectic life there at the CEA—once or twice a week to discuss what we were going to put in the WEB. Sometimes we'd see drafts, then it would get parceled out and we'd get drafts of the "stories." These were sort of like newspaper stories, though not literally. Sometimes we didn't like them and said, "That's not going into the WEB." Or "This is not ready for prime time, we'll do this next week."

We tried to feature issues that were first cousins to, but not necessarily the topic of, the week. So if there was some tax debate going on with the Congress, we might put something in about the tax code—not whether this particular provision should go in or out, because that was then being argued among the politicals, and the economics of it probably weren't going to matter anyway. But that might kindle an interest in some particular question about the tax code, so we would do something about that or about energy or whatever. We always tried to put in something about technology. The President was interested in technology, and the Vice President was especially interested in technology. Remember, the Vice President had been the one who shepherded this and enabled us to get this face time with the President. We produced this in conjunction with the Vice President's office. This was, in some sense, a joint product of the CEA and the OVP [Office of the Vice President] although we did it basically with some input from them.

**Gilmour:** Did you ever get any feedback on whether or not a certain WEB was a hit, or good, or useful?

**Blinder:** To some extent you could tell because you're face to face. The other kind of feedback we would get would be the kinds of things I was describing before, a copy of the WEB scribbled on by Clinton, "I'd like to know more about this." Or word from someone else in the White House, "The President was very engaged in that and would like to know more." So we did. But the most important was face to face. You could see, you had him in front of you.

**Gilmour:** If he's engaged, you know he's interested.

**Blinder:** He'd skip the first two pages and pick out something on page three and ask us about it.

**Riley:** It seems to me that that's very close to the core mission of the CEA, right? To serve as a kind of liaison of the best thinking in economics?

**Blinder:** Yes, we thought so. We thought it was terrific. We were very grateful to the Vice President for I'm pretty sure it was his idea actually that we should do this. We were thrilled.

**Riley:** Who were the people in his office that you were working most closely with?

**Blinder:** Greg Simon was one, and Jim—I'm forgetting his name. I can picture his face, but I can't put a name to it.



**Gilmour:** Did you feel like these fit with Clinton's cast of mind? The oral and written rather than just—

**Blinder:** Yes.

**Gilmour:** Is he a more narrative person, or does he just want decision points? Is he someone who thinks in terms of personal stories or could you get him to think in terms of quantitative reasoning?

**Blinder:** He could do all of that. He tends to think in terms of narrative, personal stories and things like that. He's not a quantitative person, but he can cope with things like that and he's very intellectually curious and, as I said before, a voracious reader. This WEB used to go in as 6, 8, 10 pages. Some of it was graphs, it wasn't all text. We always tried to have a nice graph, eye-catching, a "moving graph" on the cover page. So you might ask, "How in the world did he ever read this thing?" But he did, generally. Sometimes you could tell he was unprepared, he hadn't read his documents. We had to lead him through it. But often he did. Sometimes, as I said, he would read it later. He didn't have time, the meeting got scheduled, and he hadn't been able to read it. He'd read it later and make an inquiry of us. But he's just a voracious reader. He's a very verbal and personal person, but he's also an incredible reader. I think he must be a speed reader to read all of that stuff.

**Gilmour:** The CEA isn't the only staff of professional economists. There's also Treasury and OMB and maybe also the Labor Department. Did the roles conflict very much? Did you find yourselves having to fight it out with say the Treasury over various issues?

**Blinder:** A little bit. The Treasury is turf-conscious—in my experience more than any agency of government, though the Treasury says the State Department is worse. When we would try to move into international economics—that could be international finance, exchange rates, etc.—that was a taboo. Don't touch it. I once got a call from Larry Summers: "Your speech made the dollar go down." I said, "Oh yeah, what did I say?" I certainly hadn't said anything about the value of the dollar. We were trained not to do that. Exchange rates, international trade, and taxes, these are three pretty big areas. The Treasury felt this was their bailiwick, and we should butt out. So it was a constant fight with Treasury on that. Much less with other agencies.

As to the other agencies, I mentioned this before, some of them had economists. But some didn't have economists and were often incubators for bad ideas. So we were constantly in conflict with the Transportation Department, the Commerce Department, the Energy Department, go right down the list, trying to bat down their bad ideas. But the Treasury was mostly about turf. Almost always, the Treasury, the OMB, and the CEA would have the same position on an issue. Not always, but almost always. But it was really turf wars with the Treasury, and we would almost always lose. We had this little tiny agency against the Treasury.

**Riley:** How did these bad ideas come to your knowledge? Were they things you read about in the newspapers, or was there a formal process by which—

**Blinder:** They would filter up. The Clinton administration was organized so that there was this NEC deputies' group that would vet things before they went to the NEC principals. And ideas they would normally filter up through the NEC deputies' group. So we'd get the word from Bo Cutter, who was Rubin's deputy, that we were going to have a meeting on the wheat EEP [Export Enhancement Program]. You've probably never heard of the wheat EEP. Wheat, you know what it is. EEP stands for Export Enhancement Program. This is a really stupid idea to subsidize the export of American wheat to certain favored foreign countries, one of which was China, and you wonder why they were favored. I think the answer was they had a lot of mouths to feed, so the American farmers could send a lot of wheat there.

The idea is that the people in these foreign countries could buy wheat cheaper than Americans could. We didn't think that was such a hot idea. Furthermore, we were in a free trade agreement with Canada, which makes a lot of wheat. As we "EEP'ed" it out the back door, Canada is sending wheat back into the United States through the front door. So this is not even achieving the objective the farmers wanted, which is a higher price for wheat. This is a really stupid program, but the Agriculture Department loved it. So this is an example. We're coming to a meeting on the wheat EEP, so we'd be ready to do battle. And the OMB and the Treasury would always be on our side. The politics were on the side of the Ag Department, and they would generally win. That's just one example of many. There were many like that.

**Riley:** But the NEC deputies, was there somebody in your shop who was routinely attending those meetings?

**Blinder:** Me. Me and Joe Stiglitz. At the beginning it was just me, there was no Joe Stiglitz, and then it would either be me or Joe, depending on the topic. We had a division of labor. Sometimes one of us would be absent, and I'd have to go to his meetings. He was handling environment and occasionally he wasn't available, he had to do something else and I would go in his stead. Those were some of the worst meetings. Sometimes I felt like just tipping the table over. But we divided them, so either Joe or I would almost always go.

**Riley:** These were environmental regulations coming out of EPA [Environmental Protection Agency]?

**Blinder:** Yes, ideas the EPA had.

**Riley:** Stiglitz came on a bit later. Were you at all involved in recruiting him?

**Blinder:** No, Laura did that. I was not involved. There's a funny small anecdote. There was an objection from the White House, from Bruce Lindsey and others, that Stiglitz—you're going to laugh at why—was also from California. Laura was from California. We said, "Come on, who cares what state he's from?" So we won that argument. They wanted Laura to find someone not from California. EGG, it was EGG, Ethnicity, Gender, and Geography. We were supposed to have diversity on all three dimensions.

**Riley:** And this gets communicated to you how?

**Blinder:** From the White House personnel—

**Riley:** Okay, which Bruce Lindsey, I guess, was in charge of.

**Blinder:** In the early days it was Bruce.

**Weatherford:** It's really hard to do that with a den of three.

**Blinder:** Yes, that's what we said. There were only three of us. We did have one woman and two men, that's pretty good gender diversity. Ethnically we were all Caucasian. It was only three, so it's really hard. I think the White House had the idea, "Well, there are only three of you, two don't have to be from the same state. There are 50 states." That was just funny, I remember that.

**Riley:** In terms of internal organization in the CEA, was there a lot of staff turnover? You said early on that you kept the Republican staff members.

**Blinder:** Essentially the whole staff turned over that summer. They were the leftovers from the Bush administration. Maybe one stayed on, one or zero. But that was normal turnover. It's very typical that people come to the CEA for one year. So we hired in a new staff in the summer of '93. Those were Democrats, basically.

**Riley:** Could you tell us a little bit about the internal organizations and operation? We talked a bit about external relations but not much about what a day in the life of the Council of Economic Advisors looks like.

**Blinder:** Yes, I can. The Council has three members. We kept changing the other titles. What used to be called senior staff economists, I think, we changed it to something else, I don't know. These people would be professors on leave from academic departments, and there were about ten or twelve of them. Then there were junior staff economists. These would be graduate students, post-grads, pre-dissertation graduate students. Then there was a small permanent professional staff, the statistical office. They were careerists. The secretaries were also careerists, very good and very hardworking. So a total of about 40-something people.

I like to point out, and challenge anyone else to come up with another example of this. When I was at the CEA in '93, and generally in the Clinton administration, the size of the CEA was smaller than when it was established in the [Harry S.] Truman administration. I'd like to challenge students of bureaucracy to find another agency of government that has that record. The work had increased enormously, the scope of what the CEA was supposed to stick its nose into had increased enormously, but we actually had fewer employees than when it was established.

You can read the act. When Congress first established the CEA in 1946, it says how many positions there will be. And we had fewer than that. So the junior economists are supposed to work for the senior economists, and the senior economists work for us. But in an organization that small and that non-bureaucratic, lines often cross and juniors would report straight to me and to Laura and so on.

**Riley:** Do you go out and recruit staff or is it such a plum position that you're swamped with applications?

**Blinder:** No, we recruit. You go and ask people. You get applications and you ask people, it's a mixture of the two. For the first Clinton staff, it was really easy because the Democrats had been out of the White House for 12 years and there was this pent-up demand for Democratic economists all over the country wanting to get a hand in this. So we recruited a really good first staff very easily. I'm tempted to say we got exactly the first team we asked, with no refusals. That's probably not right, but basically we got who we invited. We had a number of applicants who were all so good that we had to put them off, saying next year or something. So we had a really excellent staff. It's very informal, very collegial.

What academics don't realize is the incredibly hectic pace. The CEA has this image among many academics as the refuge of academia in Washington. It is not. It is non-stop motion. I used to tell new staff members when they came to work at the CEA—this is more or less verbatim the speech I used to give. I said, "We have three runs here. When I give you a long-run research project, that means I need it by Friday. Then there's the short run, which means I need it by close of business today—10 o'clock at night, which is the close of business. And the third category is, 'I desperately needed this an hour ago and it's horrible that I don't have it.'" That was the timeframe we worked to, every single day.

It was worse than that in the first two months of the Clinton administration where, except for two or three people, the CEA staff didn't see us members. We were constantly in the White House in these meetings, and they were back there, saying, "What are we going to do?" I had the guy who did macro forecasting. We had a guy who crunched numbers for him, and maybe one other. They were working their heads off. But the rest of the staff was sitting in their offices wondering when they were going to meet Laura Tyson and Alan Blinder, because we didn't have any time to deal with them. But that was the first six to eight weeks. Then we went into this normal thing where everyone was working at a fever pitch. We relied on the senior staff a lot to keep us abreast of what was going on in the agencies. Our ag guy would talk to the Agriculture Department people and he would give us a heads up on what was coming out of there. And our energy guy would talk to the Energy—

**Riley:** So it was divided up according to subject?

**Blinder:** Absolutely.

**Riley:** You'd have a staffer for ag, who would—

**Blinder:** We didn't have enough staffers to do every topic so a lot of them had to do double or triple duty. But yes, they had areas they were responsible for.

**Riley:** Was there a foreign affairs or international relations component to this?

**Blinder:** Yes, there was an international—I'm blanking now who it was actually. The answer is yes. If I saw the economic report of that year, I could pick the name off, but I'm forgetting now.

**Gilmour:** What sets the agenda for the CEA?

**Blinder:** It's very reactive generally.

**Gilmour:** I guess, except for the economic report—

**Blinder:** Yes, the economic report is set in law, and that's a big part of the agency's work from October through January.

**Gilmour:** Describe some of the things you would be reacting to on a regular basis or normally.

**Blinder:** There'd be tax suggestions coming up, energy policy suggestions, transport suggestions, agriculture—I mentioned the EEP, that's a typical example. I'm trying to remember, there was another one that was really a fun one. The issue, oh yes, maritime subsidies. How many ships should we be subsidizing? Now economists would like to answer zero, but we didn't even try that, that was not going to hold.

I remember one meeting. I don't have to disguise the numbers, which are national security secrets, because I don't remember them anymore. I'll just make up numbers. The Transportation Department comes in, and they would like maritime subsidies covering 125 ships. And we're sitting there saying, "What are you, nuts?" I mean, this is costing us billions of dollars. Then everybody is around the table, even the Defense Department is in on this because the putative rationale for the maritime subsidies is that, in time of war, the U.S. wants U.S.-flagged ships that they can commandeer for military purposes. As if the entire Navy was not enough to do its job! And occasionally they do get used, I guess. So I make up a number, 125 ships. I'm there for the CEA. I'd like it to be zero, but I know I'm not going to get zero. I'm trying to argue for the lowest number we can possibly get away with.

So I hit upon what I thought was a great number. The Pentagon is there, some military officer, I can't remember. I was about to say some general, but presumably it was Navy. Anyway, the Pentagon is represented. They're in there and they say, "For defense needs we need 80." Again, I make up the number, I don't remember the number. But the point is it was lower than the Department of Transportation's number, which is basically being politically generated. It's what's good for shipbuilders that's governing this, not what's good for the national defense. So, brilliant CEA member, I said, "Look, I think we could all agree at least on one principle, that since the rationale of this is that, in time of war, we might need these ships, the ceiling on this discussion should be the Defense Department's number. And we should argue whether we should go to that number or any lower number." Sounds sensible, right? No. Didn't hold.

What you get is a letter from the congresspersons from the relevant states to the President, not picking on me personally but basically saying, "The idiot that's representing you is trying to say we should..." So this is the kind of thing the CEA is trying to do, squeeze the maritime subsidy, squeeze the wheat EEP, not let the EPA do ridiculous things for a good cause, to improve the environment but in very inefficient ways. That's the workaday.

**Gilmour:** That's a good example of an issue where you're not going to be able to have much influence, because of powerful political force behind it.

**Blinder:** We didn't.

**Gilmour:** Are there instances where you could see that you could be more influential and where the advice of a professional economist would be likely to be taken seriously?

**Blinder:** It was hard. You're going to get a very jaundiced view from me. I used to say I thought we had a batting average of about .050. One out of 20 we got a hit. So that's pretty bad.

**Riley:** Singles.

**Blinder:** And they were singles.

**Riley:** That may keep you in single-A ball for a while.

**Blinder:** Maybe, you'd better be a pitcher if you're going to hit .050. So we didn't have very many victories. But I could console myself that on the big conceptualization of what was going to be the Clinton economic policy, we had a reasonable amount of influence. Now, if the Treasury had been strongly against it, we wouldn't have won. But the Treasury, the OMB, and the CEA tend to be dominated, not always in all administrations but frequently, by the economists' point of view. It is quite predominant in those agencies, whereas in the other agencies it is not at all.

**Riley:** Does that include Commerce?

**Blinder:** Definitely including Commerce. I used to call that the Department of Protectionism.

**Weatherford:** Can I give you an example where it seems like there might have been a coalition of economists and it doesn't seem to hold? The Financial Accounting Standards Board's suggestion for accounting options.

**Blinder:** I remember that well.

**Weatherford:** Why didn't you guys and the other angels manage to push it through?

**Blinder:** This was a case I remember very well. This was a case where the issue was, Who was willing to fall on their sword for this? The politics were really strong in the other direction, including coming from parts of industry that Bill Clinton himself and Al Gore were very sympathetic to, like the high-tech industry. They had some support there, they were interested in this, they thought it was good for the country, and so on.

So when the political handwriting was put on the wall, and that happened pretty early, basically the administration caved completely. They saw they were going to lose it—

**Gilmour:** So the administration caved in response to congressional pressure rather than—

**Blinder:** Congressional and industry.

**Gilmour:** —side against it.

**Blinder:** It's hard for me to distinguish between congressional pressure and industry pressure. They caved and would not really support that, so you wound up with the CEA alone. Now at the CEA, our attitude was always that we have an inexhaustible number of swords and we just keep falling on them. That was not the attitude elsewhere. They figured if they're going to lose this fight, they weren't going to fight it. This is the difference, I think, between a powerful agency that really in some measure runs the government and this little splinter agency that thinks its job is to give good advice, whether it's followed or not. So we just kept falling on swords. And we fought that one, basically alone in the end, inside the administration.

**Weatherford:** Should you have done more? Should the CEA have taken more of an advocacy role?

**Blinder:** On that issue?

**Weatherford:** On any issue. This might spin out to a question about the CEA's role in getting the '94 budget passed, for instance—

**Blinder:** Yes, I—

**Weatherford:** Or is there a reputation issue where the CEA is supposed to be seen as objective and can't be an advocate—

**Blinder:** Oh, you mean an advocate. We viewed ourselves as an advocacy group for good economics. I think that's the way most CEAs view themselves. I'm sure there were areas where we could and should have done more of that kind of advocacy, but we had a limited number of people with a limited amount of time. I used to say that part of my job was issue triage. I arrived at the office at 8 o'clock in the morning, and there were these six issues on the day's calendar. And given the staff that we had to do them, we could only object to three of the bad ideas, not six. The question was which ones we were going to do. So there's that sense in which we could have done more if somehow we could have squeezed even more work out of the overworked staff, including myself, than we did.

In terms of whether we pulled punches when we shouldn't have, very rarely if ever. That's what I meant by saying we just kept falling on swords even when we knew we would lose. We knew we would lose this one. There wasn't any question. All the politics were lined up against it. It wasn't as though the FASB [Financial Accounting Standards Board] issue was a close call. We were just trying to argue for good economics. This was, after all, a business cost and saying that it wasn't just wasn't true.

**Weatherford:** When the issue was the President's budget as a whole, did you feel comfortable advocating on that level given that you'd had a role—

**Blinder:** Yes, and more than that. When we did the fiscal '94 and then when we did even the fiscal '95 budget—let me describe them briefly, without going into excruciating detail. The fiscal '94 budget was largely done around the table with a small number of people in the White House, with very little involvement of Cabinet officers except Ron Brown and Bob Reich, who were in the core group. More or less, with a slight exaggeration—for Cabinet Secretaries could always come back and appeal to the President—their budgets were getting dictated to them by us. This was because the Cabinet Secretaries were all new, and they were learning how to work the phones and things like that. And we're hitting the ground running, so we just pushed it on them. The whole thing was done in six weeks.

When it came to the fiscal '95 budget it was a more orderly standard budget process. The Cabinet Secretaries would come in and make presentations to the President, with Panetta present. The CEA was also around the table. We were allowed to raise disagreements: "You're wasting money on that" or "This is not a good program" or something like that. Sometimes they'd be heated and sometimes they wouldn't be heated, depending mostly on the politics. If we picked a weak political reed, we could knock it over. If we picked a strong political tree, we were not going to knock it over. So those were very different.

[BREAK]

**Weatherford:** One more follow-up on the CEA normal operating procedure.

**Blinder:** Yes.

**Weatherford:** Did the hectic quality of it mean that you didn't have time to walk the hallways or talk to people in other agencies and other departments yourself to get a sense of what was on the agenda?

**Blinder:** Absolutely. We relied on the senior staff to be the eyes and ears.

**Weatherford:** Were the senior staff reaching out to do this or did these things come in to them? Was it reactive or was it—?

**Blinder:** It was both. Some information would just come to them. But because the CEA is generically the skunk at the garden party, the agencies were often eager to somehow forget to ask the CEA to the relevant meeting. So very frequently we would have our senior staff come dashing into one of our offices, Laura's or mine or Joe's, and say, "There's a meeting two hours from now at the EPA. We should be there." Then we would show up.

**Weatherford:** Did you and the other principals feel like you needed to work to maintain your visibility, for instance by being available to meet the press and being available to the media? Did that feed into your political clout?



**Blinder:** I don't think it fed into our political clout. Laura did the lion's share of it because she's very telegenic. She looked good, she spoke well, and the administration therefore was eager to get her on television a lot. I hardly did any of that. I did print media, usually on background, a lot of that, sometimes on the record but mostly on background.

Joe, who was very new to this game and much more academic—this was his first venture into the political world—did almost none until he was chairman. He was semi-muzzled, and also, was happy to muzzle himself, because he could see he could get into trouble doing it this way. So there was a huge difference.

I'm not sure it helped our internal political clout at all. It was part of the job description for Laura and, in a different way, for me. Laura was the external face. I did a lot of briefing of press to try to make sure they got the story "right," coming out the way we wanted it to come out.

**Weatherford:** Was there an attempt to reach out to Congress, maybe to the offices of people in strategic positions?

**Blinder:** Not by us at the CEA directly, but certainly by all kinds of White House people. That was not our bailiwick. Occasionally Laura would get sent off to do something like that, but that was basically not our comparative advantage. There was a huge amount of that from the White House.

**Gilmour:** Was there some mechanism for coordinating the message?

**Blinder:** Oh, yes. There was huge attention to message. In fact, just one example, almost every day there's some macroeconomic number out and we literally had a message phone call in the morning, captained by Gene Sperling, about what's our story and how we're going to stick to it. It would start with, say, me talking about the substance of what was in the release—it was the unemployment number or it was durable goods orders or whatever, often boring things. Then Gene or somebody else would take over and say, "How are you going to handle this in terms of message, what are you going to say to the press, who's going to talk to the press?" That sort of thing.

**Riley:** Was there a press officer for the CEA?

**Blinder:** We didn't have a press officer. To the extent we had one, it was Tom O'Donnell, who was the chief of staff. But we didn't really have a press officer.

**Gilmour:** Most organizations have some kind of institutional memory, but it sounds like in the CEA that would be difficult because so much of the staff is transitory—

**Blinder:** Yes, that's true.

**Gilmour:** Does this cause a problem or not?

**Blinder:** Yes, I think it causes something of a problem in that the ways of bureaucracy are not transmitted very well from one CEA to the next. The same is also true of the ways of politics, but I think the cost there is a little lower in the sense that the specific nitty-gritties of how politics plays out change a lot from one administration to the next, depending on the complexion of the Congress and a whole variety of others. Besides, there's not much of anything we could do about it anyway.

Whereas if you knew that the EPA always had the meetings they wanted to exclude you from on Wednesday evenings in a certain place, it's nice to know that. Then you just show up. "Oh, what are you doing here?" So there's part of a learning curve that is useful that you can climb in dealing with the bureaucracy. And each CEA starts at ground level and then learns it. I think that's true. But for the reasons I said, each CEA starts again from the ground. But it has the advantage of always having freshness and bringing the straight scoop into the process.

**Weatherford:** Was the NEC any better at that? Obviously they didn't have any institutional memory either, but they were more explicitly oriented toward the political side.

**Blinder:** Yes, and more involved in it. The head of it was Rubin, but the number two, who was very important in the early Clinton administration, was Bo Cutter. Bo was experienced, having been in the Carter White House. One of the joke lines around the CEA used to be, "Bo knows bureaucracy." Bo Jackson was a famous—what was it, Bo knows?

**Gilmour:** Ice hockey, he knew everything, the commercials.

**Blinder:** There was like a Nike commercial, it was Bo knows something. Our takeoff on that was "Bo knows bureaucracy." Bo understood this better than we did.

**Riley:** I was actually going back, looking through my notes. There was one follow-up question about the '93 budget package and that was the extent to which there was knowledge early on that the Republicans were going to be opposing everything.

**Blinder:** Yes.

**Riley:** Was that a fact of life that was established fairly quickly or was there—

**Blinder:** Leon Panetta would know this better. If he has a different view, I would yield to his view. I think it was a surprise to us how obstinate and absolutely partisan, right to the last man or woman, the Republicans were. We knew we had a Democratic majority in both houses of Congress, but it was an unruly majority. The anecdotes then were, when Democrats form a firing squad they stand in a circle. Things like that. So we knew that was the world we lived in, we weren't going to get all the Democratic votes. We'd probably need some Republican votes on almost anything. Turned out we didn't, we passed the budget without it. But I was certainly surprised and, again, subject to Leon telling me I was wrong, I think we were blindsided by the sheer obstinacy of the Republicans.

**Riley:** Did you have much interaction at all with the legislative affairs operation under Howard Paster?

**Blinder:** Yes, he was the schoolmarm. When Howard walked in the room, I used to say, “Uh-oh, now he’s going to read us the riot act.” Howard would come to discipline us airy-fairy academics into the political realities of the Congress.

**Riley:** He would come to your shop, or this was in more general meetings.

**Blinder:** Usually to those NEC meetings. Howard would not normally be at the NEC meetings, but whenever Howard showed up we knew it was going to be bad news. He was carrying a message like the wheat EEP. I remember very well the wheat EEP meeting when Howard walked in. Howard is a delightful guy, by the way. You should have him on your list to talk to.

**Riley:** He is.

**Blinder:** And really smart. Howard walked in and I knew this was going to be bad. He carried a letter signed by 20 Senators stating that if the Clinton administration cut the wheat EEP, probably by one penny, I don’t remember the details, they would not vote for the Clinton budget. *Twenty* Senators! Game over. That was the kind of thing Howard was always doing.

We would take aim at highway demonstration projects. You know what those are? That’s where they build three miles of highway from nowhere to nowhere. You’ve seen these in your state. They’re all over the country, complete wastes of taxpayers’ money. We’re looking for budget cuts, so we wanted to knock that out. Howard comes in one day, “Can’t do it.” He was bringing the word of the Congress to us. So Howard showing up was always bad news, he was the disciplinarian.

**Riley:** His relationship with the political people was equally—

**Blinder:** He was one of them.

**Gilmour:** You mean the campaign people?

**Riley:** I’m thinking more in terms of the [Paul] Begalas and the Stephanopouloses and so forth, Stephanopoulos being a Hill person. I guess I’m wondering whether he had a disciplining influence on those who wanted to advocate a more liberal agenda.

**Blinder:** I think he probably did. He had the disciplining influence of what is going to get through the Congress and what is not. That was his job. So when it came to interacting with us, it was mostly telling us why our good economic ideas had to yield to bad economics because of the politics. When it came to dealing with the politicals, it was probably some other, “You’re leaning too far”—

**Riley:** Cabal.

**Blinder:** Whatever, I wasn't hearing that so much.

**Riley:** Sure.

**Blinder:** That was his job description.

**Gilmour:** Could you describe the role of the CEA in developing the healthcare plan?

**Blinder:** This is one of these—how much time do you have? It's now 12:30, maybe we should hold that. I would be glad to speak to that.

**Riley:** Why don't we come back to that, it will give you a chance to reflect on it over lunch. Also, you've got a trip to Japan in here that we need to hear about.

**Blinder:** Two actually.

**Riley:** Nothing on the record about that just yet, we'll go ahead and break for lunch.  
[LUNCH]

**Riley:** We've just come back from a lunch break. Professor Blinder has provided us some photocopies of some of the slides he was using for his January 1993 presentations. I don't know that there's anything in here in particular that we need to cover.

**Blinder:** I don't think so, we sort of covered it.

**Riley:** Exactly. We'll get copies of this and then you indicated that there were some other things you would look at to see if there was something else.

**Blinder:** Yes, I found two files, one for each of the two briefings.

**Riley:** Good. Any of that that you could pass along, again because those weren't presidential records, they're not the kinds of things that would show up—

**Blinder:** They wouldn't be in the White House records.

**Riley:** Exactly, and eventually in the library. When I make my copy of this, you've given them to me in the order that they were presented.

**Blinder:** I think so.

**Riley:** I'll put some kind of numerical designation on each of the pages so that they're kept in order, and then people who are looking in the future will have this to examine also. This is very helpful information. So I don't think I have any more questions about that. I'd be happy to head to John's question about healthcare then.

**Blinder:** The question was the CEA's role in healthcare, wasn't it?

**Gilmour:** Exactly.

**Blinder:** There was both a lot and a little. We tried to do a lot, but I'm not sure we accomplished very much.

One issue we touched on came up early and was disposed of in the right way, I think. The first issue we already mentioned was that in the early days Ira Magaziner wanted to factor healthcare into the budget as a money saver, which we—not just the CEA, all of us—rejected. That stood. We didn't get overruled on that.

**Riley:** There was a process, a period of time in which that was up for grabs as I recall. There were people working on the budget who had thought, *Okay, we need to take advantage of healthcare savings in the budget*. Then there were healthcare people who said, "No, we need this savings to deal with increases."

**Blinder:** With increasing coverage.

**Riley:** Right.

**Blinder:** Absolutely, and the latter school won out, I think largely on credibility grounds, that we would have been laughed out of town if we claimed the other, and we didn't want to be laughed out of town.

The other issue was interesting. Actually, I can think of two others. For political reasons—I think Hillary or somebody else has mentioned this publicly; I don't know if this was in Hillary's recent autobiography; I haven't read it—there was a movement on the part of Hillary Clinton, Ira Magaziner, and then George Mitchell, who was the Majority Leader at the time in the Senate, and Dick Gephardt who was the Majority Leader in the House. Somehow [Tom] Foley's name is not coming to mind, but he must have been involved. I can't recall.

Anyway, the idea was to bundle the healthcare reform into reconciliation, on the grounds that you needed only 51 votes and that might be the only way they could get the healthcare bill through the Congress. So some of those, not the politicians, Hillary or a representative or Ira would sometimes come to these budget meetings with the argument that "Never mind that this will be a way to make it easier to reduce the deficit because we'll show savings from healthcare, but for this very operational, political reason we need to bundle the healthcare reform into the budget and have one humongous bill that can't be filibustered."

As one, to a man and woman, the economic team went nuts over that idea, for a variety of reasons. But the simplest of which, and the most compelling to me, was there was no way in hell we were going to have a healthcare plan ready by the middle of February. So what are you telling us to do? Somehow we're also going to throw together a healthcare plan by the middle of February and submit the whole thing as a piece of legislation? It was completely ridiculous. But it took a while, and some table pounding, for that to go away. And of course, politically they had a point, they had a big point. Getting 51 votes instead of 60 votes is a very big difference. But the

fact that there wasn't any healthcare plan to put in the budget at the time of the budget seemed to be an overwhelming consideration.

The third thing I think of that was in the process of the task force. I remember this well. It was a Saturday night meeting, can't remember when it started, maybe 9, 10 o'clock. This will give you an appreciation of the way people were working. A Saturday night meeting someplace in the old Executive Office Building on the question of whether there should be price controls on prescription drugs as part of the healthcare plan. Some people in the healthcare team, whom we at the CEA liked to call the Bolsheviks, wanted to do this. We thought this was a horrible idea for many reasons, not the least of which was, here we were, the new guys and gals in town, the Democrats back in office after 12 years, trying to revamp the entire budget from top to bottom and we come out looking like a bunch of Socialists or something. Just imagine what this would have done for our image. That's one. Secondly, it was a lousy policy anyway.

At that time, Laura Tyson and I were the whole CEA. You've got to realize, these meetings were mostly lower-level people. Ira was in the chair, but they were mostly lower-level people, so Laura and I had some rank. We walked in the room on Saturday night at 10 o'clock or whatever it was to argue that this was a terrible idea. We did win that one, so we didn't get any price controls on drugs. So that was one little victory for CEA.

Now, beyond that, the process of hammering out the healthcare plan—Let me go back one step. For the first six or seven weeks of the Clinton administration, everybody you think of as being on the economic team—Lloyd Bentsen, Leon Panetta, Bob Rubin, all of us—was completely consumed in the budget. Healthcare was going on somewhere. Our health staff economists, we actually had two on the early CEA staff, one was a leftover from Bush I, and the other came in with us, David Cutler. They would come rushing in to us every once in a while telling us, "I've got to tell you what's going on in healthcare." We would say, "Okay, tomorrow." So after Clinton's speech in February, we turned to healthcare because we had lots of warnings that some things we wouldn't like were coming down the pike. But we hadn't really paid much attention to it.

After that, there was a kind of a merger of the healthcare task force at the high levels, not the whole 550, with the NEC economic team. That was an uneasy marriage, with a lot of us saying no and a lot of them saying yes. It was a curious set of meetings. There were many, many, many of them, a number of them with the President and First Lady. The general process, I think, though it sounds paradoxical, was very welcoming of criticism and suggestions—and then ignoring them. That was the overall gestalt of the thing. We were very much encouraged to make our suggestions, but they didn't seem to have any effect.

Lloyd Bentsen and Bob Rubin, I think, saw correctly that this train was moving down the track and they weren't going to be able to stop it. They took a low profile in terms of stopping it. Laura, on the other hand—this goes back to what I said about we're always falling on our swords—really did fight this in a variety of ways at some of these large meetings, I think to her credit. But not very successfully. I was there supporting her, but Laura really took the leadership on this particular set of issues.

So we have these meetings, and they went on and on, all kinds of aspects of the healthcare plan are discussed. Then—I'm saying then, but this did not happen quite linearly—the leak problem became overwhelming. One of you was asking about this before, about paper records.

**Riley:** About keeping track of—

**Blinder:** This was the quintessential example. Everything got leaked. So much so that it was as if Robert Pear, who was covering it for the *New York Times*, was sitting in these meetings. That had a very negative effect on the process. First of all, the meetings got smaller. That wasn't so bad because they were probably too big anyway. But much more important than that, they went paperless. This is a very complicated issue, lots of numbers are flying around of all sizes, and things that aren't numerical. But because of the leaks they went paperless in the following sense. They started working like this. Ira would walk in, and his aides would start passing around paper. So first of all, no paper circulated before the meeting so you might know what you were going to talk about, think about these numbers, or something before. Attendance was by invitation only. We were invited, fortunately, so it would generally be Laura and me or maybe just me.

Ira would start talking, and the paper is getting passed around as he's talking. We'd go over these things, there'd be objections to the numbers, discussions of this or that policy. At the end of the meeting, the paper is all taken away. You can't bring it back, you can't think about it again, you can't read the parts that you couldn't read because you were trying to pay attention to the conversation. It went on like that for a long time. This is a very bad way to do things, and it is a real cost of leaks that I think is underappreciated.

So eventually the famous, or I guess I should say these days infamous, 1,341-page, if I have all the digits right, Clinton healthcare plan is published in, when was it? August or September of '93?

**Riley:** I think you're right, you keep talking and I'll check it.

**Weatherford:** September 22<sup>nd</sup>, 1993, or something like that.

**Blinder:** September 22<sup>nd</sup>, okay. I want to remind you, the first thought was this was going to be in the Budget Reconciliation Bill in February. Then the Magaziner plan was we were going to do this in a hundred days. I'm thinking, *A hundred days, you're crazy*. So finally it came out on September 22<sup>nd</sup>, Steve says, around then, 1,341 pages long. Now, a while before that, all the various agencies that were there, including the CEA, were invited to critique the plan before it went public.

It was striking. The only agency that took the bait was the CEA. We produced a well-thought-out, 25-page or so critique of the healthcare plan: what we thought was right about it, what we thought was wrong about it, how it could be changed to make it better. This was subsequently lavishly praised by Hillary, thanking the CEA for its thoughtful input and in fact chiding many of the other agencies around the table, "How come we didn't hear from you?" The answer is, they were chicken and we were not. We had nothing to lose. But it was completely ignored. So

basically zero of the many, many suggestions we made for changing the healthcare plan got into the healthcare plan.

**Riley:** Do you think they were chicken because they didn't want to take on the First Lady?

**Blinder:** Yes.

**Riley:** So this would be a cost then of having Mrs. Clinton in such a prominent role.

**Blinder:** Yes, I think it was a big cost that they didn't perceive. I think they probably realize it now, I think even Hillary realizes it now. But it was huge. You were arguing with the President's wife. It was very hard to do.

**Weatherford:** Was it also the train was already in motion and it wasn't going to be stoppable?

**Blinder:** I think the reason it wasn't stoppable was that the engineer was Hillary. I believe that if it was just Ira by himself, he would have had so many objections from the likes of Bentsen, Rubin, Panetta, us, that we would have changed the thing materially. He wouldn't have had the clout to hold out against the united economic team—by the way, fresh off our success with the budget. Remember the bond market. We got great huzzahs right away, so we were a big hit in the new Washington.

**Riley:** But the fact is that you were preoccupied for a good part of the time—

**Blinder:** That's why I mentioned it. For the first seven or eight weeks we didn't touch the healthcare plan. It just moved down the tracks.

**Riley:** So the momentum was already well developed by that time.

**Blinder:** Very well. We were a little late to the party.

**Riley:** What was the—

**Blinder:** You may have more sub questions on that, I haven't given you all the gory detail.

**Gilmour:** If it was a 25-page document, obviously you had lots of objections, and many of those have been reported in various ways. Were there any objections that people might not be aware of or that you might want to highlight at this point?

**Blinder:** The price controls thing, I think, is pretty well known from those people who paid any attention to this. Let me think a second. There is one thing I am thinking of but it's not the most important. I want to see if I can think of anything a little more important that we—

**Gilmour:** People don't usually have much good to say about it.



**Blinder:** We had a lot good to say about it. The basic story—and I’m speaking only for myself here, but I think Laura and Joe felt more or less the same way—was that this was a good plan at its core. The core was the alliances with competition, and every alliance had to offer a variety of plans to its members. There might be more costly ones and less costly ones, and you’d pay the margin or save the marginal dollar, and everybody would be covered. We all believed in universal coverage. So at its core, I think that this was a very good plan.

Now where did it go wrong? In a number of dimensions, of which I think now of two. One goes back to the budget issues related to that. We got over the fact that it was going to save us money and actually help us balance the budget, but it couldn’t make the budget situation worse. It was decreed from on high that this plan couldn’t cost anything. How did they do that? They put on what were called “global budgets,” cost controls that basically said there will be a national healthcare budget and, as part of the legislation, spending in year 1, year 2, year 3, year 4 cannot exceed these amounts.

When you give that to the CBO scorekeepers, their instructions are, that if it’s in the legislation, it will happen that way. That’s why they’re now scorekeeping these ridiculous Bush tax cuts to disappear in certain years, because that’s what the legislation says. There’s not one person on earth who believes that’s going to happen, including the CBO. But their rules of scorekeeping are if Congress has written it in legislation, that’s the way they do it.

So the proposed legislation was going to have a global budget. We argued that there was just going to be a collision. You were not going to actually do it within the global budget, you were not going to save this kind of money from moving to managed care and other things like that, and the global budget was a fiction. The truth was, if you wanted to extend to universal coverage—that’s adding 15% of our population that was not covered—it was going to cost money. We favored that, we thought it was a good idea. But it was going to cost money. So that was one place where the reality came crashing into the numbers. That was dictated by scorekeeping.

The other thing is that—I can only give you one example offhand but there were many. They took this basically good structure, sort of a nice-looking Douglas fir tree, and then they hung on it all kinds of baubles and bells and whistles that weighed the branches down till they cracked. There were many examples. If I had that CEA memo with me, I could probably give you a dozen examples. The one that I do remember, again this was the Bolsheviks at work, was provisions in there to dictate to the nation’s medical schools how many people could specialize in orthopedic surgery, heart surgery, and so on down the line. You can imagine how a bunch of economists react to that. “What are you, crazy?” But you’ve got to say it very politely to the First Lady of the United States.

There were a lot of other things like that, that were in no way inherent to the basic notion that it would be employer-provided healthcare through these alliances with choice and so on, that were stuck in there. So a lot of this memo urged the healthcare team to throw those things off and concentrate on the central structure. I wish I could remember more examples, but there were many. But that was the big picture.

**Riley:** Were there any significant advocates within the administration for single-payer—

**Blinder:** Do you remember, you guys are all a little young for this, the old Tom Lehrer song about pollution. There's a line in it, "But they don't last long if they try"? Do you remember that? It's about breathing the air and drinking the water. They don't last long if they try. So that was the answer to that question, it didn't last long.

The other thing that didn't last long, and that included me, was urging that you do this basically not through an employer mandate, which is our traditional thing, but through an individual mandate, which is the way we do automobile insurance. All five of us are required to have automobile insurance. Our employers don't provide it for us. But that was a no-no because the Heritage Foundation was pushing that. So that was out. They're right wing, and that became a right-wing idea. So I didn't get anywhere with that.

I'm reminding myself of some of the other problems. I haven't thought about this in a long time. Because we did it through the employer mandate, when it came to giving subsidies to the people who couldn't afford the healthcare plan, we had to give subsidies to small businesses, not to small people. You really want to give subsidies to small people.

Now think of the difficulty of giving subsidies to small businesses. Do you know any law firms that have seven employees? Oh, yes. Consulting firms, with guys who make hundreds of thousands of dollars a year? Small businesses, lots of small businesses involve lots of rich people. So we bent ourselves into pretzel after pretzel trying to design a subsidy scheme that made any sense and that we could afford within the budget. But if we had done it individual by individual, then we're giving subsidies to the poor people. That's easy. There aren't that many poor people. We could have afforded it easily. But there are 20 million small businesses in America. This was supposed to buy us support. I'm laughing. This was the political strategy, which we had no part in. This was supposed to buy us support from the small business lobby, which, if you were cognizant of what went on there—I joked later, I think we got the support of 12 small businesses in America out of the 20 million. This was part of the great political strategy.

Another thing. To grab the old-line businesses like autos and steel, which also didn't support us by the way, we promised as part of this to assume a good share of their legacy healthcare costs, for their retirees. It's a big burden even now on General Motors, Ford, U.S. Steel. The politicals who formed the political strategies thought we would buy the support from these old-line industries by promising to take over these healthcare costs. That put a big cost element into our plan that was not part of the central design. And again, none of them supported the plan. So there was item after item like that, layered on for one reason or another, usually to try to clumsily cobble together a political coalition, that I think doomed the plan.

**Riley:** Tell us about Ira Magaziner's working style.

**Blinder:** Ira is a very smart fellow who's totally frustrating to deal with. Whatever you argue, he argues back. He's a smart person, not a dummy by any means. But if there's a simple way and a complex way to do it, he always wants the complex way. I think that's the easiest way to describe Ira. So dealing with him was really very frustrating. Not personally, we never had any

personality problems with him. He's not bombastic or nasty or anything like that, perfectly pleasant to deal with, nods his head, tells you why you're wrong.

**Riley:** Did you get a sense about his working relationship with Mrs. Clinton or what it was between them—

**Blinder:** It was very close and the point is that when he spoke he had her authority behind him. There may have been some minor areas where this was not so, but basically she backed him.

**Riley:** The characterization you're describing is 100% consistent with what we hear from virtually every person we interview—

**Blinder:** You should have Ira on your list too.

**Riley:** We hope this fall sometime. But the great mystery to people on the outside is why someone like Mrs. Clinton, who I think is fairly astute politically, would be so heavily reliant on this particular individual for this—

**Blinder:** I don't know, it's a mystery to me. I really don't know. In fact, I'm pretty sure—you may know this from your other interviews—that during the transition period, Ira was not the guru of healthcare. There was a healthcare crowd in the transition period, but it was not led by Ira. He got put in charge of it later. This was a longstanding friendship. I don't know where it originated actually, but both Clintons knew him for a long time. He was obviously very smart. He had been a successful management consultant. How he got put in charge of this, I don't know. But the key thing from my perspective was that Mrs. Clinton was put in charge of it because, as I said before, we could have beaten Ira alone. But we couldn't beat Hillary.

**Riley:** Did I get a reaction from you when I said Mrs. Clinton has some political astuteness? What is your reaction to her?

**Blinder:** I think she's much more politically astute now than she was in early 1993. I think she learned. She's really smart. She learns, and she knows she made mistakes. She's said it herself. I know she was not as politically astute then as she is now because there were a lot of these—I mentioned a couple of these—these alleged political ideas. How we were going to get the small business lobby? How we were going to get the old-line industries? They were complete flops.

**Riley:** And you think they came from her rather—

**Blinder:** I don't know, but they had to be approved by her. I have no knowledge that she originated them.

**Riley:** Let me phrase the question slightly differently and ask you to comment on what positives she brought to the process. I know it's going down in history thus far as a big failure but—

**Blinder:** I think she elevated the importance of it, and it is an important issue. We're still grappling with this issue in this country. It's a crying shame. She emphasized the importance of

universal coverage, which I think is very important and even today we're no closer to that goal than we were in 1993. As I said, get rid of the baubles and I think the core of the plan was good. I think she and Ira, with the help of many other people, developed something that at its core made a lot of sense and was a good plan. We'd be better off today if we had it, without these extraneous things that could have been stripped away at no cost to the basic plan. I'm not talking about stripping away universal coverage or any of the central things.

**Riley:** There's a partially informed perception out there that part of the reason this plan ran into great trouble is that it was a very closely held, centralized operation within the White House that didn't rely on a great deal of input from outside. Is that consistent with your recollections?

**Blinder:** No, not really. There was a lot of talk like that and there was this fuss about who the 550 people were. Remember that? It was about Hillary's legal status under the something act. It was a big deal then.

First of all, the healthcare task force itself had 550 people. So how closely held can you be? Just start with that. Secondly, once we got past the first six or eight weeks, the whole economic team was involved in this in a very granular way, not just in the big picture but in meeting after meeting on details. So, no, I don't think that was a detriment. I think the problems were many. Ira's very complex organizational style. We had all these tollgates and things. I remember calling Bob Rubin when I first read this memo about how he was going to do this. I said, "Bob, have you seen this?" And of course he hadn't, we were all working flat out on the budget. I said, "Take a look at this thing, you won't believe it."

The only reason I ever got a chance to read it in that period was that it was inauguration day and I went to National Airport to pick up my mother. I was waiting for the plane, so I picked it out of my briefcase, and I said, "Let me read Ira's memo." That's when I called Rubin—immediately. I remember that. So it was that, just making things more complex than they need to be, putting on all these baubles that don't need to be there.

There was something else I wanted to say that was important. Give me your question back again, the way you asked?

**Riley:** It was the closed offer—

**Blinder:** Oh, yes, closed versus open. It's what I said before. They were very open to hearing all points of view, and they heard them. You talked about the criticism of the large size of the budget meetings. We had healthcare meetings with—it literally looked like one of those phone booth things: how many bodies can you squeeze in the room? So this was a very open process in that sense. But they didn't take the suggestions.

**Riley:** So there was something with the psychology that despite the fact that you're gathering all this material, there wasn't the sense that it actually was influencing the ultimate outcome—

**Blinder:** That's why I mentioned the CEA memo. We had a very cogently argued lengthy memo on which praise was heaped by Hillary herself, and it had no effect on the plan.

**Riley:** Let me pose a question—

**Blinder:** You can call that closed or open. There are two meanings of the word “listen.” The “listen” in terms of “does it get into your ears, and do you hear it,” absolutely. The “listen” as in “listen to me,” it never happened.

**Riley:** Was Mrs. Clinton involved in many of the budget meetings early on?

**Blinder:** No. Barely any. The only ones I recall were when what was on the table was this issue of whether you would bundle the healthcare plan into reconciliation, which she wanted to do.

**Gilmour:** Was there any thought of doing that in the second year, because the healthcare plan didn’t actually make it to Congress until ’94 when it wouldn’t have been messing up your first-year reconciliation?

**Blinder:** Great question. I don’t remember the answer to that. That’s a very good question, I just don’t recall.

**Riley:** Was this one of those cases where Bob Byrd objected?

**Blinder:** Not germane.

**Riley:** I can’t remember.

**Gilmour:** It definitely would have had lots of budgetary implications.

**Blinder:** It didn’t though. Remember, the thing was jiggered with these cost controls to not have a budget implication. That wasn’t credible, but that’s the way it read. So I guess Byrd could have, I don’t know.

**Riley:** I don’t know and that’s something easily checkable.

**Gilmour:** I was interested in reading your bio sheet. Income distribution is one of your specialties.

**Blinder:** It was.

**Gilmour:** Probably one of your interests in going into the Clinton administration was to see if you could stimulate any policy on that area.

**Blinder:** Absolutely.

**Gilmour:** I’m just curious what kind of discussion there was and what policy initiatives might have gone forward on that.

**Blinder:** I think the Clinton crowd was very receptive, very sympathetic to that. They didn't need me. You remember they had run on an upper-class tax increase, to raise revenue by taxing the upper 2% of the income distribution. Other than that, redistribution certainly was not a big part of the campaign. I don't even recall it being in *Putting People First*, but it might have been. If I was preparing for this like a student, I would have read *Putting People First* before I came to this interview, but I didn't. So I don't remember that the earned income tax liberalization was even in there. It certainly was not a major thing, though it might have been in there.

But to us, this was the biggest antipoverty thing we did. The earned income tax credit [EITC] is the biggest antipoverty program in America now, thanks to what we did in 1993. It wasn't that big before. But we got a huge liberalization of the EITC. I don't claim any particular credit for that. It was like was pushing on an open door. The crowd that was then in the White House, the political and policy people alike, was inclined to do that; they liked the idea. And Clinton liked the idea right away because these were the people who "worked hard and played by the rules."

**Gilmour:** Was there interest in extending job training programs as a means of pushing down the non-accelerating inflation rate of unemployment?

**Blinder:** Yes. Bob Reich would champion things like that along with Larry Katz, who was his right-hand man. And we did do some things like that. Don't press me on the details, because I won't remember, but there were some things like that.

**Weatherford:** If you think though about two streams of legacy, one about prosperity and growth and the other about distribution, it does seem like not much got done on this.

**Blinder:** On distribution?

**Weatherford:** On distribution, especially if one takes your earlier—

**Blinder:** I don't agree actually. You have to put it into perspective. What most Americans don't realize is that we actually live in a small-government society. That's point A. Point B, even if you live in a bigger government society, it's not that easy, as long as it's a capitalist market society, to influence the income distribution by government action. Point C, there's never been much political force, amazingly, for redistribution in the United States. It's just not as popular as it is in Europe. So you have all of these handicaps from the get-go.

Subject to all of that, I think what we did with the EITC was large in the relevant metric of feasible things you might be able to do to the distribution of income. When you couple that with raising the taxes up to 39.6% in the upper-income brackets, and grade it all on the relevant curve, I think we did a fair amount. On an absolute standard, it's not that much. To this day I wonder, and I haven't studied this carefully enough to have a really educated opinion, to what extent some of the policies we promulgated then were responsible for the hiatus in the widening of the wage distribution. If you look at the wage distribution data, it was growing more and more and more dispersed until about 1993. Then it didn't narrow, but it stopped widening, and lately it's started to widen again.

At least the two were coterminous in time. If you press me hard and say, “What did you do to make that happen?” there were some of these job programs, there was some of that stuff, it’s not that big. It’s hard to imagine that this was such a major force, but it did happen in that period. If you really want to have a big impact on the distribution of income in the United States, or in almost any country, you have to have an impact on the distribution of wages because most people get most of their income from wages.

**Weatherford:** What about minimum wage, upscaling—

**Blinder:** That came later. We did have a rise in the minimum wage, in ’95, I think.

**Weatherford:** There was. I think you’ve earlier written about immigration and argued that if you upscaled immigration requirements it would be different.

**Blinder:** We didn’t do that.

**Weatherford:** Didn’t do urban regional poverty, didn’t do too much by way of—

**Blinder:** Well, we did these empowerment zones, which were probably more advertisement than accomplishment. They probably accomplished something, however.

**Gilmour:** Human capital investment?

**Blinder:** That was not that much. There was a little—I’m thinking of AmeriCorps. Remember, they’ve got scholarships at the end. On second thought, let me not belittle it. We had that, we had a big increase in Pell grants, and we had a couple of other things like that that are escaping me. Some of that got through to the budget. But basically, there’s a part of the story we didn’t tell yet, though you guys already know it. The part of the Clinton program that was the so-called investments, which was our nice euphemism for anything good, was eviscerated in the Congress. A little of it got through, but most of it did not. This was a very straightforward, clear, political story of the entrenched parts of the budget being able to defend themselves against the insurgents. We wanted to redeploy money, take it away from this program, and put it into this better program. Getting that through the College of Cardinals was another thing entirely, and we had modest, very modest, success.

**Weatherford:** Do you think there was anything that could have been done differently?

**Blinder:** On that particular issue?

**Weatherford:** On issues like equality, long term, short term?

**Blinder:** Well, I’ll repeat, I think the EITC was a very big achievement. I think in principle we could have done more. Where you can potentially have a big impact on this is compensatory education, human capital formation that focuses on the lower parts of the skill distribution. I think that, had Congress been so inclined, we could have done a lot more. Certainly, the Clinton economic team had the inclination and had the thoughts. I remember some meetings we had

early on on the human capital theme. I don't think it ever led to anything much, but maybe it led to something. Do you have Bob Reich on your interview list?

**Riley:** We do but—

**Blinder:** He would remember. The high-school-to-work transition. We don't do that very well in the United States. I thought there were some good ideas, and I can't for the life of me remember if we ever got any of them enacted. I'm not sure we did. But there was a whole school-to-work agenda that was largely a Reich agenda. I thought it was a good agenda, but I don't think too much of that got through. Then there was the job training that you mentioned, and the minimum wage.

**Gilmour:** Did Clinton find it frustrating that there was so much wealth increasing in the United States but not a lot of it was making its way down to people of relatively low income?

**Blinder:** Oh yes, I think so, very much. He also found very frustrating how hard it was to deal with the Congress. In fairness to the Congress, the Clinton team wasn't that good at it at the beginning. They got better—

**Riley:** But Congress got worse.

**Blinder:** They got better and Congress got worse more or less at the same time, I guess, yes. Then by the time of the loss of the '94 election, the game was over.

**Riley:** How did you get involved in the Japan policy?

**Blinder:** Part of my bailiwick was trade policy. There was a lot of Japan bashing in America in '91, '92, and Clinton was very sympathetic to that. He was hearing from a lot of industry people that Japan was unfair and doing this and that and the other thing.

**Riley:** Did he give voice to that during the campaign?

**Blinder:** During the campaign? Yes, I think he did actually. It wasn't a big campaign issue, but I think he did. He criticized George Bush for being too soft on unfair traders.

**Riley:** Was that before or after he threw up on the Prime Minister?

**Blinder:** I think after. So, relatively early on, again right after we finished the budget, I remember a lot of foreign visitors would come by the CEA while we were working on the budget and say, "When are you going to pay attention to us?" And we would say, "Just wait. We've got our hands full right now." And it was true, once we finished the budget, that we started turning to NAFTA [North American Free Trade Agreement] and finishing the Uruguay round, and to Japan. It's a very big agenda, and all of this was going on at the same—and this was all in my province at the CEA. Later trade shifted to Stiglitz, but in the first months it was mine.

**Weatherford:** Why not Tyson?



**Blinder:** Oh, no, Laura was at the top, so she had everything. Then Joe Stiglitz and I divided it all up issue by issue.

**Weatherford:** Okay.

**Blinder:** Trade fell to me. So when an NEC deputies' group was formed to figure out what to do about Japan, I was the CEA representative. We met approximately an infinite number of times, starting with a really big group that included not just State Department but also Defense. They dropped out after a while, figuring this had nothing to do with national defense and they had better things to do with their time. But in the early meetings, Defense was there. There may even have been some of the intelligence agencies, I'm not sure about that. We had an endless series of meetings about what to do about Japan, culminating in these trips to Japan for our team to meet with their team to negotiate what became the so-called framework agreement. That was the end of one process.

You have to realize that there was just a huge internal process about what were we going to do about Japan, with increasing specificity until we were ready to negotiate with the Japanese. Then we went over to Japan in late June on a plane—I remember this very well—I believe it was a former Air Force One, maybe two Presidents back. It was an old plane that had at one point been the plane of the Secretary of State. But he had given it up, so I don't know whose plane this was. We got on this plane, and it was an old enough plane that it couldn't fly straight from Washington to Tokyo. So I wound up getting my only four visits to Alaska—Elmendorf Air Force base, two trips, in each direction.

On one of them, I had—have you ever had a tooth crowned?

**Weatherford:** Yes, sure.

**Blinder:** On one of them, I had just had a tooth crowned. And it fell out on the airplane. So here I am, heading for Japan—I remember this very well and this damn thing.... We're sitting in the cabin having a meeting about what we're going to do, and my tooth falls out. So first I went to the men's room to see what the hell had happened. I came back with this thing in my hand, and Bo Cutter, to whom this had happened before, said, "Don't worry, just shove it back in." So I shoved it back in, and it held pretty well until I got back to America. These things always happen on the way out, not on the way back. These are things you remember.

So we went there and had these very frustrating, lengthy, not very successful discussions with the Japanese. Frankly, we were asking for some things that were quite unreasonable. Some were reasonable, some were unreasonable. It was a mixed bag. This was the set of meetings that got Charlene Barshefsky nicknamed "Stonewall." She was tough, she was the Deputy USTR. This is at the deputies' level, it was the deputies who went over there: Cutter, Altman, Barshefsky, Joan Spero from State, and Larry Summers from Treasury.

**Riley:** Who's leading the delegation?

**Blinder:** Cutter. This was an interesting piece of bureaucracy. There was always this jockeying between State and Treasury about who was going to be in charge. Each one always thinks they are the most important agency of government. I don't know how Machiavellian it was, but one day Charlene came in and suggested: "I think we could really elevate this in the eyes of the Japanese if we put the White House in charge. So Bo Cutter should be the head." You could almost see the Treasury and the State Department, Larry Summers and Dan Tarullo and Joan Spero—all of these are my friends—gnashing their teeth, "What are we going to say now?" And Charlene basically sandbagged them. So the White House became in charge of this, which meant Bo Cutter was head of the delegation.

So we were there for days, basically getting nowhere. Then we all went home. We had decided before going that part of the negotiating style had to be: if we were getting nowhere, we were just going to tell them good-bye. So we said good-bye, and went back home.

I've got to tell you a funny story about when we landed coming in, it just occurred to me. I think [Michio] Watanabe was the Prime Minister then, it was a period in which they were changing Prime Ministers fast. I think it was Watanabe. The Japanese obviously felt embarrassed by this, and Watanabe basically told his people, "You've got to reach an agreement with the Americans." So we came back in late June. On the third of July, close to a national holiday in the United States, all our phones started ringing from the White House, or maybe it was even the fourth, "Pack your bags, we're going back to Tokyo." And we flew back on the fourth of July. We really wanted to do this!

The reason we had to do it is that the G7 [Group of Seven] summit was going to be in Tokyo, I'll say on the eighth of July, I don't remember exactly. That's in the record. We were basically sent back because the Japanese are now going to be more pliable. "Go back, we need this agreement to sign at the summit." It was in Tokyo, that's why it was such an embarrassment to Watanabe, or whoever was Prime Minister.

**Riley:** Clinton met with [Kiichi] Miyazawa in Washington in April, now there could have been, because there were changes—

**Blinder:** No, that was well before. Yes, this was a big enough issue that Clinton himself was involved in this with Miyazawa. Yes, it was Miyazawa, thank you. This shouldn't have been a big deal, but it was made a big deal right to the presidential/prime minister level.

**Riley:** So you went back over.

**Blinder:** We went back over on the fourth of July. The Japanese obviously had been given their marching orders: Reach an agreement with the Americans. So they negotiated as best they could, but they knew all the advantage was to us. The summit was happening on July 7<sup>th</sup> or 8<sup>th</sup> or whatever day, and they were under orders from their Prime Minister to reach an agreement with the Americans, whereas we were under no such orders. If we couldn't get a good deal, we were going to walk away again and embarrass them right on their home turf. So they were in a very bad negotiating position. They signed roughly on our terms. We made some concessions there.

**Weatherford:** You mentioned that this involved an infinite number of meetings in the White House and NEC before it got started, including the negotiations with the Japanese, which were difficult. Was this because the issue was genuinely intractable, was it because Bo Cutter and the NEC were running inefficient meetings? Should Mickey Kantor and USTR [United States Trade Representative] and the principals have stepped in earlier? Would that have made any difference?

**Blinder:** No. I think it would have been much worse with the principals. The curious thing was that as you moved up from the deputies to the principals—so from me to Laura Tyson, from Charlene to Mickey Kantor and right down the line—they got more and more hostile to the Japanese. Whatever level of Japan bashing there was at our level—and I was the dove on this, I was the least into Japan bashing—when you moved it up a level, they became more intransigent on the American side, more anti-Japanese. So I think it would have been worse to do it at the principals' level. The deputies were, from my perspective, more reasonable than the principals. I think it was the intractability of the issue in three dimensions. First, that the Americans at the principals' level, right up to the President of the United States, were so PO'ed at the Japanese trade policy that they were making unreasonable demands. Second on the other side, the Japanese were being like Japanese often are, "yes, yes, yes," which means "no, no, no." Nobody was getting anywhere.

Thirdly, just so you don't think this originated with George Bush II, we were under clear instructions, not in so many words, but more or less instructions, that we had to do something different from the Bush I administration. Bush I had had the Structural Impediments Initiative. We had to throw that out, and say it was bad, and do something new. So that was a handicap also. I thought that conceptually, the Structural Impediments Initiative was the right way to do it. The way it was actually executed was not very good. It was basically, "Here's a list of the ways you Americans should be more Japanese, and here's a list of ways you Japanese should be more American." That was the way it was actually done; I don't think it was executed very well. But I thought, conceptually, that was better than posting targets and numbers and things like that, which was the framework. I was not a big booster. Nobody in the task force will be surprised if they ever read this history to hear me say that, because they know that I wasn't.

**Riley:** Had you done intellectual work on this before? I mean, trade was a part of your—

**Blinder:** Not much, no, I just—

**Riley:** So it just fell to you because—

**Blinder:** It fell to me because someone had to do it. It's a dirty job and someone had to do it. And it was at the deputy's level, so Laura couldn't.

**Riley:** The briefing book indicates that you stayed in Tokyo with Clinton during the G7 summit.

**Blinder:** Yes.

**Riley:** Can you tell us about that experience?

**Blinder:** When I say with Clinton, don't think I was in the next room to Clinton. He stayed at the embassy and we stayed in the Okura Hotel, which is sort of across the street from the embassy. We were negotiating right to the last minute, and we were invited into the closing ceremony meeting, where Clinton and Watanabe actually signed this thing.

**Riley:** But you weren't privy to any of the meetings so that you could comment on his interactions with anybody—

**Blinder:** I think you need others higher than I. This was a summit, so all the principals were there.

**Riley:** Sure.

**Blinder:** So Tony Lake was there. I didn't mention that the NSC was part of this. Sandy Berger was then the deputy, Tony Lake was the principal. So Tony Lake would be doing that, Lloyd Bentsen would be doing that but not—

**Gilmour:** At Berkeley Laura Tyson was involved in an industrial policy group, and that's probably what brought her to Clinton's attention.

**Blinder:** I think that's right.

**Gilmour:** Was she involved in pushing any industrial-policy initiatives or was Clinton interested in pursuing—

**Blinder:** You mean outside of the trade area we were just talking about?

**Gilmour:** Yes.

**Blinder:** No.

**Gilmour:** Perhaps the moment for that idea had passed by then.

**Blinder:** I think the moment had passed. It had to some significant extent transmogrified into a trade issue. So there was the semiconductor agreement, for example. That was industrial policy. Furthermore, the industrial policy that gets thrown at you once you become the chair of the CEA, or a member of the CEA, is all the crassest kind of protectionism. Laura wasn't for any of that. The steel lobbyists would come in and tell us their views. And then we did this horrible aluminum cartel, remember that? Laura wasn't in favor of any of those things.

**Riley:** That basically wrapped up the work you did on Japan then. You mentioned two trips, and I guess it was the two trips back to back that you went on.

**Blinder:** Yes, but there was a continued trailer of meetings that we were monitoring. Part of this framework was that we were going to have targets, and we were going to monitor progress. So

we had many, many meetings. But the negotiation was finished at that point. We had a framework.

A naïve view, and we were not this naïve, would be that it was over once you negotiate the agreement, and everyone just does what it says. That's not the way it worked, and we were not that stupid. So we knew that this was just the beginning of what was going to be another infinite number of interactions. Fortunately, they didn't involve going to Tokyo.

**Riley:** There was actually some ambiguity in the language about the agreement.

**Blinder:** Sure, there was a lot. This was negotiating. We negotiated all the words. I don't remember them so well anymore.

**Riley:** NAFTA. Trade becomes a big issue in that dimension as well. Were you involved at all in the decision to proceed with NAFTA? Was there ever any serious consideration in the administration that the President wouldn't invest a great deal of energy in it?

**Blinder:** There absolutely was, and I was not involved. It's simple. Economists are free traders, to the man and woman basically. We were all big boosters of NAFTA, no question, and of a variety of other things. Everybody knew that, we made no secret about it. And it's true in every administration, basically. There was a huge battle in the administration with the political people urging Clinton not to fight that fight. It was going to tear his own party apart.

It's interesting how there are waves in history. There have been waves in American history where the Republicans were the protectionists. But in our wave of history the Democrats were the protectionist party. We were only going to pass this—I'm trying to remember now—if Newt Gingrich could deliver 100 votes or something like that. There was some magic number. The vote counters figured we could get only so many Democrats, and we needed 100 Republicans. And what would we have to pay for those 100 Republicans? How much would this cost the President in a variety of dimensions, and was it worth it for Mexico?

Because the truth was, although this is not the way we sold the policy, the benefits were vastly larger for Mexico than for the United States. How could it be otherwise? You have the 800-pound gorilla doing an arrangement with a little gnat. So who will benefit more from this symbiosis? That was just completely obvious, but not the way the thing was sold. It was sold as usual: jobs, jobs, jobs. That came back to bite the Clinton administration very badly. Unlike the budget, which was sold as jobs, jobs, jobs, and ended up looking great. All of a sudden the economy was growing like mad and jobs were being created. So on NAFTA, there was a huge political debate to which I was in no way privy. Laura may have seen a little of it, but I don't think she was involved too much. Have you talked to Laura yet? She's in England of course, it's a little harder. She's now dean in London.

**Riley:** Yes, we know.

**Blinder:** Laura may have been involved in a little of it, but I don't think too much. There was a big political debate about whether this fight should be fought and whether, if fought, it should

come before or after healthcare. Because the healthcare crowd correctly perceived that Clinton was going to expend a lot of political capital on NAFTA, and if healthcare came after, that would leave less to be spent on healthcare. And they were quite right on that.

**Riley:** And you were privy to those discussions or not?

**Blinder:** No. I knew they were going on. They don't ask the CEA for opinions on things like that, nor would our opinions be very valuable on things like that. I think if they had asked me, I probably would have said, "Do healthcare first," for the reasons I said. There were benefits to the United States from NAFTA, but they weren't that large. It was mostly a favor to the Mexicans. Healthcare was a very big national issue affecting every American. Had I been asked for my political advice, I think I would have said, "Do healthcare first and let NAFTA wait." But I wasn't asked.

So this was another area—I'm sort of repeating the same theme I did with the budget—where Bill Clinton is taking on an issue that's not going to win him a lot of votes. It was going to win him more kudos in Mexico than it was in the United States. They don't vote in our election. At that time, they didn't vote in their elections either, but they certainly don't vote in our elections. It was going to split his party apart, which it did. You might say, as a political analyst, so what's the up side? You just gave me all down side.

The up side was going to be these little efficiency gains—we call them Harberger triangles in the economic jargon—to Americans, plus his favor to the Mexicans. Politically, it seems obvious. And it seemed that way to the political people; don't do this. It was another one of these cases like the budget, where Clinton just said, "I really think the overwhelming consideration is what is the right policy, and let me take the political hits for doing it." I can't think of any other explanation.

**Gilmour:** Was he caught up in the principle of free trade? In the idea of moving toward this optimum?

**Blinder:** Yes, but not in the way economists are. It was always "free trade but." Remember what we were doing with the Japanese. We were trying to interfere. The rationale was that they were rigging the deck one way, and we wanted to rig it the other way. You could hardly call that free trade. We wanted them to have quotas on their current account surplus. How the hell were they going to do that?

So Clinton was not a sort of Ricardian free trader but basically believed in trade, that more trade is better than less trade.

**Riley:** And the CEA was pushing him vigorously in that direction?

**Blinder:** Absolutely, we were totally supportive—once the political decision had been made that NAFTA was going to come ahead of healthcare. That was not our call. CEA is always in favor of freer trade, and this was a free trade agreement.

**Riley:** At that point, are members of the council mobilized to go out and give speeches in the business community or take telephone calls or—

**Blinder:** Yes. This is an interesting case where I felt it was important to preserve the CEA's credibility. This was sold, as usual, as jobs, jobs, jobs. But it's not about jobs, it's about Harberger triangles and efficiency. We were asked to do an analysis of how many jobs would be created by NAFTA. First of all, the long-run answer is going to be negligible. It's not about jobs. The short-run answer is going to depend on how the trade balance moves, which country's exports would rise more. We didn't want to get involved in that. I'm proud of myself, I was learning something about bureaucracy. I managed to get this shunted off to the USTR on a repeated-game argument basically. The CEA is an organization that you're going to want to have credibility many times in this administration, so that what we say is at least somewhat, if not completely, believed. If you make us say these ridiculous things, we're going to lose our credibility. The USTR and the Commerce Department are known to be completely political agencies. Let them say it. So I shunted the jobs to them.

So we never had to do a CEA estimate of how many jobs would be created by NAFTA. The USTR did it, and we kept mum. This is what my mother always taught me: if you can't say anything nice about something, don't say anything at all. So we didn't go out of our way to disavow the USTR report, we just stayed out of it.

**Riley:** You mentioned earlier, in an instance with respect to budget balancing, the favorable influence that Ross Perot had played. Perot had a different kind of influence in this question.

**Blinder:** He sure did. It was the giant sucking sound. That's what it was about NAFTA. So part of our job was fighting the giant sucking sound argument. We were pleased as punch to do that, we did it with great gusto and enthusiasm. It's baloney, complete baloney.

**Riley:** But that's a question of job loss as opposed to job creation.

**Blinder:** That's right. Perot's was the argument that we were going to lose a huge number of jobs by entering into a free trade agreement with an economy the size of Los Angeles. That was roughly the magnitude. The economy of Mexico is roughly the size of the economy of Los Angeles. It was completely absurd.

**Riley:** You were out on the speaking trail? You were giving speeches?

**Blinder:** Yes, lots of us were.

**Riley:** I suppose I should ask that in more general terms. You gave a lot of speeches as a member of the Council?

**Blinder:** No, not that many. I was out, but it was limited. I was needed more as a surrogate speaker on the campaign than I was as a member of the Clinton administration. A campaign is a thinner operation than an administration. I was low enough down the administration hierarchy that I wouldn't be a featured speaker. So I did a little of it, but not much.

**Riley:** What kind of venues would they have asked you to speak at on NAFTA? I would think small business organizations, people who are concerned about losing jobs?

**Blinder:** I honestly can't remember, I can't recall. It's doubled by the fact that at some point in that process we at the CEA reorganized the workload, based on the observation that I was working twice as much as Joe Stiglitz. So we moved some things from my portfolio to Joe's portfolio, and NAFTA was one of them.

**Riley:** Okay.

**Blinder:** So while that was going on that moved from me to Joe.

**Riley:** How was that division of labor normally done? I'll confess my ignorance.

**Blinder:** The classic arrangement is that there's a macro member and a micro member. But if you actually look at the number of issues, there aren't that many macro issues. So the macro member will do the macro and some piece of the micro, and the micro member will do the rest of the micro. Trade is one of those things that in the economists' argot, is more micro than macro. It sits around the borderline of the two. Originally, I had the whole trade portfolio. I had the Uruguay round, NAFTA, and Japan, all of that. And I shunted off NAFTA to Joe.

**Riley:** Can you tell us about the other two items, we haven't really discussed—

**Blinder:** Well, Japan we discussed. The Uruguay round was another interesting thing. We had another infinite number of meetings. It was Lloyd Bentsen who called the Clinton administration the meeting-est administration he'd ever encountered. I presume he was right.

How we were going to finish the Uruguay round? We were getting a lot of pressure from foreign governments—because obviously this was going to go nowhere unless the United States pushed it—and from other people who weren't in the administration but deserved respect, like Carla Hills, who had pushed this a long way and then left the government. You know, "When are you going to pay attention to the Uruguay round?" And while we were doing the budget we were just saying, "Just wait, just wait."

And, of course, we had Larry Summers over at Treasury—who more or less was, I don't want to say frozen out, but not involved in the budget process—raring to go on his issues. Once we got to the international stuff, that's where he was sitting. And Larry, as you know, is a bundle of energy, among other things.

So we had lots and lots of interdepartmental meetings on a whole list of issues ranging from subsidies to dumping and many, many things in between. There's a lot of arcane stuff in trade policy, most of which I didn't know going in and learned about on the job. Blissfully I've forgotten most of it. So we had a huge number of issues. The main players in that process were, as I recall, Commerce, Treasury, State, and NSC; they were always there, whether they knew anything about it or not. It's hard to push the NSC around, they have guns. Who am I leaving



out? USTR, of course, I think those were the main players. OMB was not too much involved in this. Every once in a while, when it seemed to be going badly, I would try to get Alice Rivlin to show up to be another voice for free trade.

**Gilmour:** Would the Commerce Department be involved?

**Blinder:** Yes, the Department of Protectionism, I called it, heavily involved in this. We were almost always at loggerheads with the Commerce Department. And when ag issues came up, with the Ag Department. And when transportation came up, with the Transportation Department. They were all doing exactly what a political scientist would expect them to do, protecting their constituencies. It always boggled my mind that they never thought of their constituency as the American public. They always thought of their constituency as the transportation industry, the agriculture industry, the music industry, whatever industry we were championing.

So it was the same story. I don't know if you guys know much about this, but we have something called Fast Track. It's got a new name now, I forgot the new name, Fast Track authority. This negotiation was under Fast Track. If you read the legislation, Fast Track says that a negotiation happens and a whole agreement, from clause 1 to clause 872, is presented to Congress for an up or down vote. Completely false. This is not the way it works. Congress has lots to do with the negotiation, both in the conventional and obvious ways—that is, you get congressional pressure on the administration's negotiating position, and there was a huge amount of that on every single issue—but also, they were over there in the final negotiations in, I'm going to say, in Brussels. Is that where it was? I wasn't there. We were doing this by phone. I think it was in Brussels. It started in Uruguay, of course, but I think it got finished off in Brussels. A number of members of Congress were right there in the U.S. delegation, in the negotiating delegation, telling them, "You can't do this, you have to do this."

So this hardly works like the legend of Fast Track. In any case, you had once again, this internal executive branch—I won't call it White House anymore—process to develop our position. Again, I'm saying this temporally although it doesn't really happen that way. Then it meets the Congress, and whoops! Then Howard Paster would show up, "Forget about that, because you can't get anyone in Congress to vote for that." Then it met the other countries, who weren't always willing to accept the U.S. bargaining position completely. So we would have these meetings back and forth. Some people would be over there, I think it was in Brussels, and we'd be on the phone in Washington getting the latest scoop about what we might have to compromise and so on. And that, of course, would precipitate arguments within the group about how we were going to compromise this and so on. Fairly late in this process, I really thought there was no way it was going to get done. But I wasn't that experienced in negotiations then.

An amazing number of issues get resolved in an amazingly short period of time at the end. It would take weeks and weeks to get one issue settled, and then you have a list of 27 more that have to be done by Wednesday. And you say, "There's no way this can happen." But if there's enough political pressure to finish the deal, the deal gets finished. And it did, in a pretty good way. The CEA, being the purest of free traders, were very unhappy with lots and lots of things. But in the broad perspective, it got finished off pretty well.

**Riley:** There were similarly side agreements for NAFTA. Were you at all involved?

**Blinder:** Oh, yes, labor, environment. Was there a third?

**Riley:** Those were the two biggies.

**Blinder:** Those are the two that I remember. Yes, we were very much involved.

**Riley:** Trying to fend them off or giving in to reality and—

**Blinder:** Yes, it was a combination. Giving in to reality, that is, knowing we're not going to get this agreement unless we have something. I think we succeeded pretty well. I don't think those side agreements were harmful to the trade.

**Riley:** How exactly were those crafted? Were you working with Howard Paster on this or were you sitting in rooms with members of Congress?

**Blinder:** No, at my level we were not sitting with members of Congress. Other people did that. Howard Paster would come, the political constraints would come in from on high, and we deputies would meet and try to work something out that met those political constraints as best we could.

**Riley:** Would you like to take a break?

**Blinder:** I would love to have a break.

**Riley:** Why don't we do that? Do you have a question on the table for him to think about?

**Weatherford:** What I think would be a quick question—

**Blinder:** If you're about at the end of this trade thing we could finish it.

**Weatherford:** I wanted to ask you about international capital liberalization. That may not be an immediate segue and then you probably wanted to begin questioning him about the Fed, monetary policy.

**Blinder:** So are we finished with trade?

**Riley:** Sure, if you want to.

**Blinder:** Okay.

**Weatherford:** So we'll do capital and then we'll do monetary policy, that's logical.

**Blinder:** Right, it is logical.

**Weatherford:** Finance, this will be the finance segment. Good time to take a break.

[BREAK]

**Riley:** We're scheduled to run until 4 o'clock, that's okay with you?

**Blinder:** Yes, and if it takes a couple of minutes after 4 that's okay.

**Riley:** Okay. Steve?

**Weatherford:** We were going to chat a little about international capital liberalization, especially to emerging markets.

**Blinder:** I have strong opinions, not as strong as Joe Stiglitz, but—

**Weatherford:** I know you do. Where did the CEA stand and why did the CEA apparently lose out to Treasury and IMF [International Monetary Fund]?

**Blinder:** The second part of the question is really easy and obvious, but let me say this. First of all, have you read the book by Paul Bluestein? You should. It's a really good book, I can't remember the title.

**Weatherford:** Yes.

**Blinder:** Okay, you read it. Paul tells the story very well, and I talked to him extensively about it. The issue was to what extent—in the context of the Uruguay round and in other ways, but it first came up in the context of the Uruguay round—were we going to force recalcitrant countries like Korea to open their capital markets more. So this was under the rubric of trade in financial services.

I can't remember Laura being involved in this one way or another, although she may have been. But the CEA, in the person of Joe Stiglitz and me, felt very strongly about it—and remember the trade portfolio was now shared. It was basically my portfolio, but because I was overworked some of it went to Joe. I felt very strongly that it was a very big mistake to push premature capital market liberalization on countries that weren't ready for it. I've often said since then—I don't remember that this was my line in the administration—that countries shouldn't adopt America's bad financial habits until they're rich enough to afford them. And I believe that. We can afford them. We can have all kinds of excesses, and derivatives trading, and things like that, and we go merrily on our way. And this was way before the '97 crisis.

Joe and I were saying this could be ruinous to countries that don't have the infrastructure, the regulation, the wealth, the deep capital markets, and so on. The Treasury in particular was pushing the liberalization line very, very hard. I just thought it was the wrong policy, and so did Joe. I keep mentioning Joe because we were sort of Bobbsey twins on this, and to some extent he then pushed this issue much further and took it and ran with it much harder than I did. I think the difference between Joe and me in this context is I that could see when we lost, and Joe couldn't

see when we lost. So he kept fighting. As the last inch of the *Titanic* is disappearing beneath the sea, he's still fighting. I'm seeing that once the center of gravity has gone below the ocean level, it's over and let's do something else.

**Riley:** Swim away as fast as possible?

**Blinder:** Exactly. I think that was the only difference between us on this issue. I thought it was outrageous. I know Larry Summers has a totally different view of this. That's his right, it's a democracy. The main protagonist on the other side was Larry, who at that time was the Undersecretary of the Treasury for international—

**Gilmour:** I'm a little surprised he had such a divergent view. I think in many other respects his ideas on economics are fairly similar to yours.

**Blinder:** Absolutely, absolutely, and I just thought their arguments that this—I can hardly say this with a straight face—this was about job creation. Like jobs for who? Derivatives traders in New York?

**Weatherford:** In the financial services industry.

**Blinder:** Yes, they really made this argument with a straight face. This was about job creation for Americans. Joe and I used to ridicule that as “making the world safe for derivatives traders.” But they were making arguments like that to force the Koreans and others—Korea was the biggest case—to allow these kinds of fancy financial transactions into their markets. The Koreans were very wary of it. This was a case where, if you ask who won and lost, it's easy: when the CEA comes nose to nose against the Treasury, the CEA loses. Doesn't matter what the issue is, doesn't matter whether you're right or wrong, you lose. So we lost, of course. My recollection of it is that it was mostly CEA against Treasury, with the rest of the government pretty quiet about it but, where pressed, on the Treasury side—because that's where the politics were. Who were we protecting? The Koreans?

**Weatherford:** Was there congressional involvement, people on the Banking Committee who had contacts with the financial services industry?

**Blinder:** There may have been, but not very much that I can recall. You know, Bluestein's book would say much more about it. He looked into this much more than I did. The one thing I should point out to you, Steve, and to all of you, is that in these contexts, the typical way things would go was: there'd be a meeting on it, and I would go and Joe would go. We'd get briefed by the relevant CEA staff person in the ten minutes before we ran over to the meeting. As soon as that meeting was over, I had to go to another seven meetings on seven different topics.

So it's not like what an academic does. In academia, you hear a seminar, then you go back and think about it. You might even do some research on it. Was that right? Was that wrong? There was never any time for this at the CEA. You're running around like crazy people. That puts you at a disadvantage against the bigger agencies. They come in well prepared. Larry Summers was in the same position I was in, he had to run to seven other meetings. But he had in the room with

him six Treasury staff members pushing paper in front of him, and things like that. And he's pretty smart and a pretty fast reader, so he could absorb it at that speed. We had nobody, and we didn't have the staff resources that Treasury did.

So in particular, on the question of pressure from Congress, I don't know the answer.

**Riley:** Mickey Kantor's name really hasn't come up here. Did you work very closely with Mickey Kantor?

**Blinder:** Much more with Charlene, because that was deputies' level. Occasionally with Mickey, whom I liked very much although I almost always disagreed with him. I'm what would be called, from his point of view, an ideological free trader. And he's a very sort of a practical guy, "What can I get? This is a deal, this is a bargain. I want to get the better end of the bargain."

**Gilmour:** Did Charlene Barshefsky continue that attitude when she became the trade rep?

**Blinder:** I think largely yes. She was a little more conceptual than Mickey, who was just, "We've got to make a deal here, and I want to get the high end of the deal." But there was a lot of that in Charlene. Charlene is a litigator and a good one.

**Riley:** At what point are you approached about the possibility of a Fed position?

**Blinder:** Let's see if I can date this. The date is really hard. Let's see. Wayne Angell was the first Republican to go off the Fed, and he was scheduled to leave in—they're all January 31, that's why the date is easy. They all end January 31<sup>st</sup> of even numbered years. So it was January 31, 1994. In the summer of 1993, I started needling Bob Rubin, "We should think about this, we want a Democrat on the Fed." But I can't get anybody interested.

**Riley:** But that's not a part of your portfolio.

**Blinder:** Well, it was sort of, because it would be expected in any administration, including ours, that the economic team would make recommendations to the President about what to do with an appointment like that. I thought it was our responsibility to be prepared to make recommendations to the President sufficiently ahead of January 31, 1994 that we could have somebody in place and ready to go. It takes an inordinate amount of time to do all this vetting. But I couldn't get any interest in this. "It's too far down the road. We're dealing with other things."

So this went on like this for a long time. Finally, I'm guessing it must have been after the election—

**Riley:** It's '93.

**Blinder:** Sorry, '93, you're right. So maybe it was November, December, or even January of the next year, I don't remember, something in that time frame. I finally managed to get the attention of Rubin and others in the White House that we ought to take this seriously. So we formed a

group, and I was in it, of Clinton's economic team, to vet candidates, to think about who we might nominate for the Fed.

**Riley:** Does this occur before the Fed starts moving interest rates up?

**Blinder:** Yes, this is before the Fed starts moving interest rates up, that's right, because that started in February '94. And at some point in that process, I don't remember exactly, Rubin comes to me and says, "How would you like to go over there?" I thought about it a little and I said, "I don't think so. I was thinking about doing my time at the CEA and then going back to my nice, pleasant academic life." I thought about it a little, and a couple of days later I went back to him and I said no. But then I said, "If the vice chairman's job should come open, I might really be interested."

**Gilmour:** Could you explain why the vice chairman's job is more appealing than a regular appointment?

**Blinder:** I think I had a greatly exaggerated view, from the outside, of the relative greater importance of the vice chairman compared to the other Governors than I did once I got on the inside and saw what it's like to be vice chairman to Alan Greenspan. It wasn't as different as I thought. Having said that, it is the case that the vice chairman heads the organization in the absence of the chairman, which happens occasionally, though not frequently. As part of that, the vice chairman very frequently represents the Fed in international meetings because the chairman of the Fed doesn't want to go to all these international meetings. They're mostly in Europe, and while the Europeans are going short distances, the Americans have to make this long trip. Many of them Greenspan would skip, and I would go instead. And I liked that, it was probably the best part of the job.

But the main answer to your question is: from the outside, I had an inaccurate view of the status or job satisfaction gap between Governor and vice chairman. It's like this, and chairman is like this, and I had a view of the vice chairman and the chairman, and here was Governor, or something like that. That was wrong.

**Riley:** For the record those were large hand gaps and small hand gaps and intermediate hand gaps.

**Gilmour:** Before you go on, when you entered the administration was there any agreement, overt or otherwise, on how long you would stay?

**Blinder:** No, but there's a norm at the CEA. People generally stay a year and a half, two, two and a half, that's typical. If someone leaves after a year, he left too soon: he should have served longer. But not too many last more than about two and a half years—that's the general range. The halves come because you start in January, if you think about the rhythm of an academic year.

**Riley:** At this point do you recall whether your name had been floated as a possible replacement for Alan Greenspan when his term—

**Blinder:** Definitely not. Rubin asked me to do this and I said no, and we continued the search process, and we were starting to converge on a person. I guess I shouldn't name him because we never did nominate this person. We were pretty much there when David Mullins, the then vice chairman, resigned. It was a surprise to everybody. So Rubin came back to me and said, "You said you might be interested in vice chairman." I thought about it a little, and said I would be.

That was roughly decided inside the administration. The search committee, which I stayed on, continued its vetting and searching for the Wayne Angell replacement, which wound up being Janet Yellen. The desire to announce a man and a woman at the same time put my nomination in limbo. So it was a secret that I was going to be the nominee for vice chairman; it was not supposed to get out until we decided who was going to get the other slot, even though I was chosen months ahead. This was annoying and very uncomfortable, but I think it was relatively secret. Then word started leaking out because people talk. So it was not until probably April—this is in the White House record—that we both got announced at the White House by Clinton as the two nominees for the Fed. But my part of it had been decided a long time before that.

At some point, I can't say if it was in the leaking period or the announcement period, the press starts running speculations that I'm a likely successor to Greenspan. This is not good publicity. It's very flattering, but not good. First of all, there was never one word of discussion between Rubin and me, or Clinton and me, that I would be a successor to Greenspan, never a word. Secondly, the vice chairman of the Fed has never in the history of the Fed succeeded to the chairmanship. It's never happened in history, so this is not a stepping-stone to the chairmanship. Thirdly, Alan Greenspan doesn't like to have rivals, and that's what did me a lot of harm. I'm convinced that that is what got our relationship at the Fed off to not the good start that I thought it would have.

I can now get the sequence better. The CEA used to have lunch with the Fed monthly, and Greenspan almost always attended and we talked with him. I had a very good relationship with him. He knew, of course, that I was coming over to the Fed before it was announced. We talked about his ideas of what we would do. Very friendly. He was extremely welcoming. Then these press stories hit, and he got really cool. They were not planted by me.

**Riley:** Did you have conversations with the President before you went over about—

**Blinder:** What to do when I got there? I don't think so. I can't swear that I never had any, because I used to see him in many, many meetings. As a member of the CEA, I actually met with the President much more than a member, as opposed to the chair, usually does. So I used to see him pretty frequently. Maybe I'm wrong and there was one, but basically either zero or negligible.

**Riley:** As we mentioned earlier, in February '94 the interest rates started going up. And in Woodward's book, I think, you get a picture of a President who is highly aggravated, purple. Can you tell us about that?

**Blinder:** Oh, yes, he had a very simple attitude. Now remember, you can go back and link this to the Little Rock briefings, where I had told him that he was betting his Presidency on either the Fed being cooperative with interest rates or the bond market rallying. We had the bond market rally, so we had this tremendous success brewing. Secondly—you were talking about this before and I said I have no firsthand knowledge of this—but he may have had reassuring discussions with Greenspan. He may or may not have said, “Do this thing to the budget deficit, and I’ll cooperate.” I don’t know if that ever happened. Some people think it happened. Greenspan knows and Clinton knows if it happened.

Everything is going really swimmingly well by February 1994. And one day, Bill Clinton gets, to him, blindsided—although in fact the move was well telegraphed by Greenspan. But Clinton’s not a Fed watcher. He’s got other things on his mind. He gets blindsided by Greenspan raising interest rates. “Why did he do that? Everything’s working out great.” He couldn’t understand it. He was totally enraged, and a bunch of us went in to him probably more than once to try to explain what the Fed was doing. We said, “It isn’t so bad, it isn’t going to kill the recovery. There’s a reason, interest rates were abnormally low. They couldn’t stay that low,” and we sort of calmed him down.

Then that got repeated with the next interest rate hike. Every time Greenspan raised interest rates, Clinton raged inside the White House. But to his everlasting credit, this just shows how smart he was, this was all private. He never made a peep publicly that he was angry at the Fed, or in any way hinted that he was trying to jawbone the Fed. And he didn’t, to my knowledge, ever pick up the phone and scream at Alan Greenspan. If that ever happened, I didn’t know about it. And I think I probably would have known about it.

He was smart enough to take the advice he was getting from all of us—from Rubin, from me, from everybody—that a President who picks a fight with the Fed is likely to lose. There’s very little up side and a lot of down side to that. I was the one who told him back in Little Rock—he didn’t like this—that in terms of economic policy he had just been elected to the second most powerful position in America. This was news to the Governor of Arkansas. He didn’t like it because it was a hard job to get elected, and to think he was now second fiddle to Alan Greenspan didn’t sit well. But I think he remembered that, and he listened to the counsel of Rubin and myself and others who said, “Just hands off the Fed.” Our mantra was “We don’t comment on the Fed, we don’t comment on the Fed.” What do you have to say about the Fed? “We don’t comment on the Fed.” We were very disciplined that way, and so was Clinton. Clinton kept to that discipline. So he never went external, but he was really mad.

**Riley:** That’s what leads me to the question about whether there weren’t some very strong internal signals about the need to move very quickly to get some Democrats on the Fed.

**Blinder:** Clinton didn’t say anything, but I wouldn’t be surprised if he didn’t think that I’d be a moderating influence on the speed at which the Fed was raising interest rates. Maybe I was, I don’t know, it’s hard to say. Greenspan ran the show. If I had any influence, it was very peripheral.



**Gilmour:** You said in the administration it wouldn't be hard to persuade someone that you would probably be in favor of keeping interest rates low. I think it would be reasonable for the President to have expected that.

**Blinder:** Yes, he probably did. But in fact, as I explained to him when he was raging about Greenspan, the Fed more or less had to do this. At that point they had the real federal funds rate at zero basically, as it is now. It's slightly negative now. It's the real rate that we economists think matters. This is a very abnormal setting of the rate; it was equivalent to the Fed holding its foot firmly on the accelerator. As the economy started to show signs of life, it was clear that they had to ease off the accelerator. All of us economic advisors sang that song to Clinton, and he gradually acclimated himself to that. I don't want to exaggerate the extent to which the President of the United States is paying a lot of attention to what *I* think. But to the extent he was, and he has a great memory so he probably did remember this, he knew I was personally supportive of the Fed raising interest rates to some degree. Not to abort the recovery, but to sort of glide back toward neutrality.

But the important thing is, there was no sense in which I went over to the Fed with marching orders from the President, "You've got to stop Greenspan from doing this." There was nothing remotely like that.

**Weatherford:** In terms of being persuasive, do you remember any debates about interest-rate levels where your view might have made a difference?

**Blinder:** You mean in the Fed?

**Weatherford:** In the Fed.

**Blinder:** Hard to say. The one thing I do remember is a slight variant on what you said. This goes to the last rate increase of the raising cycle, which started in February '94 and ended with the last raise in February '95—of 50 basis points. I was very much opposed to that. Shortly after that, I made a speech to the Richmond Bond Club in which I emphasized that the preemptive strategy—that is, preempting inflation by raising interest rates before you had an inflation problem—was symmetric and needed also to be used on the down side to cut interest rates in order to preempt rising unemployment. This got a fair amount of attention.

But not long thereafter, Greenspan started saying more or less the same thing—not in my words and not as straightforwardly. I'm much more plainspoken. It's not an understatement to say he's not that plainspoken. But the message was that he believed preemption was a symmetric strategy. This helped cause a rally in the bond market because they immediately perceived the rate hikes were over, and if the Fed's going to do anything coming up, it's going to be a rate cut, not a rate hike. I like to think to some extent I pushed him in that direction. But I'm not sure that's right.

**Weatherford:** Quick follow-up. You advocated more transparency on the Fed's part—

**Blinder:** Definitely.

**Weatherford:** —as I remember for FOMC [Federal Open Market Committee] to release their decisions promptly and explicitly and try to explain them.

**Blinder:** Yes.

**Weatherford:** Do you think you had any impact on that?

**Blinder:** I think I did, but not so much while I was there. I think it's what we economists like to call the lagged effects. A number of people who followed me on the Fed, Larry Meyer in particular, have given me a lot of credit for pounding my head against the wall and not getting anything done while I was there, but laying the predicate for subsequent openings. So I'm happy to take any of that credit that I can get. But I didn't accomplish much.

There was a Blinder committee set up to consider greater transparency and disclosure, as we called it, by the Fed. But by the end, when we brought this to the whole FOMC, the only one willing to support the recommendations of the Blinder committee was Blinder. This is in the minutes, in the public record, so I'm not revealing anything that's secret. Most of the suggestions of the Blinder committee for greater openness lost by an 18-to-1 vote in the 19-person committee. I couldn't even carry Janet Yellen. So I didn't accomplish that much. But yes, it was almost certainly the biggest area of disagreement between Greenspan and me, much more than any disagreements about monetary policy.

**Gilmour:** When you and Janet Yellen went on the Fed, did you find yourselves in much disagreement with the other Governors?

**Blinder:** Oh, yes, but not so much about monetary policy. This is another thing people don't realize about the Fed, and it's apparently less true now than it was then. Most of what a Federal Reserve Board member does is dealing with microeconomic issues having to do with bank regulation, bank mergers, bank supervision, consumer protection laws, CRA [Community Reinvestment Act], fair lending statutes—all kinds of things that have nothing to do with monetary policy. On those issues, people tend to divide on left-right lines. On monetary policy, they don't tend to divide on left-right lines so much.

So very, very frequently—this was just Board business, not FOMC business, I'm talking Fed jargon here, the seven members of the board—there were 5-to-2 votes with the two of us on the losing side on a whole variety of issues like that. It was common. I went to the Board first. I was there two months or so before Janet arrived. I felt like a Martian. I was the first Democrat to show up in a Governor's office in 14 years, and I felt like a Martian: "I think this, and doesn't anybody else think this? No." I felt much better when Janet came, then I could talk to her. I said, "Don't you feel this way?" "Oh, yes, sure." So it reassured me that I wasn't going crazy. Before Janet there were a lot of 5-to-1 votes and then they became 5-to-2 votes. But these were not monetary policy issues.

**Gilmour:** So on the FOMC—

**Blinder:** These were not FOMC issues.

**Gilmour:** Was there any division between you and Janet Yellen on the one side and the other members—

**Blinder:** I think it's fair to say we tended to be more dovish, a little less hesitant to raise interest rates. Not that we opposed it, we did think interest rates should go up.

**Gilmour:** But at a somewhat slower rate—

**Blinder:** At a somewhat slower pace. And then I really didn't think we should do the last 50 basis points that we did. I was very unhappy about that. But we weren't alone in that. [Larry] Lindsey, for example, was very erratic; he would swing from dovish to hawkish. I could never quite figure out where he was coming from. There were a few other members like that. Bob Forrester of Atlanta tended to be pretty dovish, so it wasn't as though the two of us stuck out like sore thumbs. But it's fair to say that, if you put the 19 members of the FOMC on a continuum, we were near the dovish end if not *at* the dovish extreme. I think that's fair, even though neither one of us ever dissented against any of those interest-rate increases.

**Gilmour:** Was there any difficulty or awkwardness going to the Fed and the FOMC from the administration then in power?

**Blinder:** There was—over one thing, which is again something that almost no one on earth paid any attention to. The administration, at exactly that time, for months before and months after because Washington issues take a long time to get resolved, was looking to reconfigure bank regulation.

We have a crazy quilt pattern of bank regulation. Banks are regulated by the FDIC [Federal Deposit Insurance Corporation], by the Fed, by the OCC [Office of the Comptroller of the Currency], by the OTS [Office of Thrift Supervision], thrifts are banks. Many of them are regulated by more than one of those. Largish bank holding companies probably get regulated by all of them because one regulates this piece, one regulates that piece. It's a really weird *mélange* of regulation. And the administration, in its naïveté, was trying to simplify that structure by pushing the Fed into a very small corner of the regulation picture. In various variants, they were going to get left with the 25 biggest financial holding companies or something like that, the big guys. I say "in its naïveté" because while everybody knows it's very difficult in Washington to fight Fannie Mae [Federal National Mortgage Association] or NASA [National Aeronautics and Space Administration], not so many people realize that about the Fed. But the aficionados do. The Fed doesn't lose much, and the administration in the end got its ears pinned back on this issue by the Fed.

But in any case, that was a live issue when I was nominated. And while I didn't think the administration's policy was very smart on that—I'd been on the losing side in the internal debate—this was the administration's policy and I was coming out of the administration. So I was going to the Fed when it was in a long war with the administration over the bank regulation issue. That was extremely awkward. Once I made the transition it wasn't awkward because I actually thought the Fed was more right than the administration. But I was at first stuck in the

administration, which was pushing what I thought was not a very smart policy. So there was that. There was also the fact that the Fed was raising interest rates, and I knew better than most that Clinton was really mad about it. But I thought the Fed was right to raise interest rates, so I didn't really have any trouble with that. And the Fed is independent.

**Riley:** You didn't hear anything from your colleagues?

**Blinder:** Directly? No.

**Gilmour:** So once you're out the door over to the Fed, that's it, no communication?

**Blinder:** Well, it was very close. I had friends there, so I did talk to them sometimes. And there are financial issues, particularly international things that cross lines among the White House, the Treasury, and the Fed. But I was actually astounded at how little contact the folks I left behind ever tried to initiate with me. I thought there would be a lot more.

**Riley:** I wonder if you could elaborate on that.

**Blinder:** Very, very little.

**Riley:** Because from the outside you have this sense that the Fed is such an insular institution, largely on these disclosure questions, and yet when we interview people who are in the Treasury or the White House, you hear, "Oh, yes, we have these weekly meetings with Alan Greenspan."

**Blinder:** Yes, they do.

**Riley:** How is the presumption of independence maintained when there's all of this routine contact that goes on?

**Blinder:** First of all, a lot of the routine contact is about issues to which the independence doesn't pertain—for example, exchange rate policy. That's really the Treasury's business, and the Fed executes. People often don't realize that, but the Fed is the executor of the Treasury's policy. Now the Fed could pursue its own exchange rate policy, because it has its own portfolio of foreign exchange just as the Treasury does. But always, when the United States government intervenes, it's 50-50, Fed money and Treasury money. But the Fed could in principle say, "We're against that, we're not joining you." They'd have hell to pay then. They are not independent on exchange rate issues. Similarly on all these regulation issues, the Fed is in there because Congress has given it responsibilities to do things. So Congress has the right of oversight over the Fed. "We told you to do this, to enforce the Fair Lending Act, are you really doing it?" The Fed has no right to appeal to its independence on that. It's a regulatory agency. It has the same amount of independence as a regulatory agency has. Congress doesn't tell the SEC [Securities and Exchange Commission], "This guy's guilty, this guy's innocent," but Congress has oversight over the SEC: "Are you doing your job properly?" Same with the Fed. It's only on monetary policy where the Fed has this absolute independence. So, I would say, essentially all of these Treasury-Fed discussions were on regulatory and international issues. As soon as you start hinting around monetary policy, Greenspan would smile munificently and clam up. He'd smile

as if to say, “You expect me to tell you anything about that?” You weren’t going to get anything out of him.

**Weatherford:** I think it’s great, Mankiw notes that Clinton’s nominees to the Fed were more likely to be academics and more likely to be relatively prominent as economists—

**Blinder:** Yes, than the previous history.

**Weatherford:** Than the previous history.

**Blinder:** Definitely.

**Weatherford:** I think that’s worth noting.

**Blinder:** Yes.

**Weatherford:** And the interesting thing about it is to then ask, did it make any difference? Did it make the deliberations deeper or better informed? Did it change the outcome of any of the decisions?

**Blinder:** I think it raised the intellectual plane of the deliberations. Now again, I’m flattering myself and Janet Yellen and a few others.

**Weatherford:** Is that only by a factor of two-sevenths or did it somehow bring everybody else up?

**Blinder:** More by a factor of two-nineteenths. I don’t want to give the impression the others were a bunch of dopes and Neanderthals, they weren’t. The majority were economists themselves. The others, the bank presidents, more than half of them I think are economists themselves. The other Governors when I joined included a businessman, a banker, Greenspan is an economist, of course. Larry Lindsey is an economist, and Sue Phillips was sort of an economist—she holds a degree in economics. So it wasn’t as though we were the only ones bringing in these kinds of ideas. But I think it did raise the intellectual plane, and I think that’s good.

I doubt that it changed any decisions because the decisions were Alan Greenspan’s decisions, and the decisions of the other members of the committee were whether they wished to go on record as opposing Greenspan. Actually, two decisions. Do you want to oppose him quietly inside the room and not go on record by voting against him? Or do you actually want to go on record and vote against him? Those were your two decisions. You’re not going to change the FOMC’s decision. Greenspan made it before he came in the room, and that will be the answer. So I don’t flatter myself to think we changed any of the decisions.

**Gilmour:** I guess I was under a misapprehension. I thought that the FMOC operated by a vote.

**Blinder:** Well, it's not quite a Soviet-style vote but, John, think of the following context. You're in this room, there's an unquestioned leader. It's a bit like the Army, you salute the general. It's a bit like that. This particular general has been on the job a long time, not then as long as now, but even then, when I came there, he had been there seven years. He commands the staff. The staff works for him, not for you. And finally, he's done a hell of a good job. That's true to this very day. So how much argument is he going to get from the troops? He didn't get very much.

It is a vote. In principle he could be outvoted. In practice, the chairman of the Fed has never lost a vote on monetary policy. I never did dissent. My view always was that—when I said that there were 19 members, only 12 vote at any one meeting—and Greenspan basically walked into the room with ten votes. So the best you were going to get out of it was a 10 to 2. Janet and I could have opposed some rate increase, and we'd have lost 10 to 2. And the decision would have been exactly the same. We never did that. But that was the decision we had.

**Riley:** You didn't stay on the Fed, you decided to leave.

**Blinder:** Yes, it was complicated. That was just a statement. You were going to ask why.

**Riley:** Yes.

**Blinder:** I was anticipating. There were a whole lot of reasons. First, I should say, it was one of the hardest decisions I ever made in my life. My wife and I actually took a vacation in Acapulco around Christmas time. My term was ending January 31<sup>st</sup>, like all terms, and I sat on the beach and contemplated my future life. That's what I did for a whole week. I still hadn't made up my mind when I came back, although I was definitely migrating in the direction I eventually want. It was a very difficult decision. There were many factors.

One was a crass financial factor. I was slowly going broke. You don't get much sympathy from the average American if you say my salary was only \$123,000 a year. That's a lot more than most people make. But I was maintaining a residence in Washington and a residence in Princeton. I wasn't starving, I wasn't living high on the hog, but my net worth was going down, and I could mentally plot it in my head and see when I was going to cross the zero line. I had done that once before in my life, when I got stuck in the real estate bustle, owning two houses at once. That was in '89, '90. I didn't want to do that again. It was really uncomfortable, but I could see it happening. But I could have lasted another year or something. It wasn't imminent. The wolf was not at the door.

Second, I was concerned—I think you gentlemen can appreciate this—that the longer I stayed out of academia, the harder it was going to be to get back. It's even harder, I think you can probably appreciate this, in economics than it would be in political science. The more technical a discipline is, the harder it is to go back. Rightly or wrongly, you just miss a lot of technical stuff—a lot of it is garbage but you don't know enough to say so. When I was at the peak of my game, I could tell what was garbage. I could understand the garbage enough to know that it was garbage. When you let your skills atrophy for three years plus, which I had already, it gets harder. The question was, would I extend that period? Because it gets harder and harder.

That's why I was contemplating my future. I thought, realistically, if I took another term at the Fed, I might stay there at most another three, four years and probably only one or two. And then could I go back to academia? I thought it would be very hard. So the question was, do I want the next stage of my life, what I was thinking of as the last part of my working career—so how old was I then? I was about 50, so say from 50 to 70 or whatever—to be in academia or to be in Wall Street or banking? Because if I stayed out much longer, there was no going back to academia. I decided I would much rather play out my life in academia than in banking.

So that said to me, okay, if you stay at the Fed, you're only going to stay another one or two years max. Then I said to myself, *Is it really fair to the President of the United States to say, "Okay, give me a 14-year term."* There's a P.S. to this, by the way. There were two vacancies once David Mullins resigned. I could have had the 14-year term, which I gave to Janet Yellen, or the short term. I deliberately took the short term, because I didn't think I was going to stay that long, and I didn't want to tie up the 14-year term. So now it comes to what was left of my term, and the question was: Am I going to ask Bill Clinton to appoint me to a 14-year term when I felt I would only stay a year or two? He would have to go through the hassle of finding another nominee and getting that other nominee confirmed in what was then a Republican Congress. It was a Democratic Congress when I got confirmed. I thought that wasn't very fair.

So the short of it was that it was forced by the dating of the term. Had my term run another year, I surely would have stayed another year. But given the dating of the term and all these other personal considerations, I thought it was better just to cut it right there than to ask Clinton to nominate me, serve another 15 months, and then say, "I'm sorry, Mr. President, but I really want to be a professor, go find someone else." So that's why I quit. Actually, I didn't quit, my term ended. I did not quit.

**Riley:** Usually we like to wrap these things up by asking some general retrospective questions. What do you think is the most prominent legacy of the Clinton Presidency in economics?

**Blinder:** Well, it's a good question because the legacy has been destroyed by the Bush administration. The most prominent legacy, I think, was fiscal responsibility, the notion that how much the government spent ought to be in some sense constrained by receipts. It doesn't mean you have to balance the budget every year, but in some sense constrained by how much is coming in. That's completely gone out the window. Now, I think we'll get back to that, but it's going to take a big effort. It took a big effort the first time, and it's going to take another big effort.

It took a big effort and a lot of luck. That's a major theme of the book Janet Yellen and I did. I think at some point we're going to get the big effort again. Whether we'll get the luck again is anybody's guess. But I think that is part of the legacy.

I like to think, this may sound like small beer but I don't think it is, of the very large expansion of the EITC as a permanent part of the legacy. It is, I repeat, the biggest antipoverty program we have in America. I think also of AmeriCorps, something I didn't think was very important during the campaign at all—national service, who cares? But I came to realize that it was a lot more important, that it captured a very widespread and deep-seated feeling among America's youth, including my own sons, that this was a good thing to do. I think that is part of the Clinton legacy.

With all the to'ing and fro'ing, and there was a lot of it, I think he set a very good example, much better than the Republicans who came before him or after him did, on trade policy—despite the fact that the Democrats are the protectionist party. He fought that. It wasn't perfect, there's no such thing as perfection in this world. But when you add up all the pros and cons, it adds up to a really good record on trade policy, which as you all know, is near and dear to the hearts of economists.

Did I leave out anything obvious? I would add something a little less important. I think he raised the bar for appointments to the Fed, as one of you was saying. I think there's something to that. And also the way he kept his hands off the Fed. I believe if you could trace the historical record, he was the first President in a very long time not to have a conflict with the Fed, to really give the Fed its head and let it be independent without having to fight off objections in the White House. It was not true of Bush I, it was not true of Reagan, it was not true of Lyndon Johnson, and so on. It was not true of Carter. I really think Clinton was the first to do that, and I think it sets a very good example. That may be the only aspect of the Clinton policy that the Bush II administration is following. They've been pretty good on that. I think there may have been one peep at some point about something, but basically it's been hands off the Fed.

Coming back to the deficit, Clinton particularly sold it on the notion that control of the deficit—first deficit reduction, then balancing the budget, then actually running a surplus—is a pro-growth, pro-jobs policy. That was the notion that we sold this program on early on. Later as the administration continued through its eight years, the view switched to pro-investment and pro-productivity. That's where real wages and living standards come from. But that was not the story early on.

At one point, when I was giving one of these didactic briefings in the White House and I came to that point, Clinton corrected me and said, “No, no, no, this is about jobs. You must always say this is about jobs.” Politically he was right, because people weren't ready to hear the other rationale. But I think one legacy of the Clinton administration is a greater understanding of what this budget control is all about. It's not because of our Puritan forebears, and it's not because of Polonius saying, “Neither a borrower nor a lender be.” It's about investment and growth and real wages and productivity. I think that's much better understood now than it was, at least in elite circles. I don't want to claim that if you do a random-digit-dialing Gallup poll of the United States, you're going to get high understanding of that. But among the elites of both parties, I think this is quite well understood now—in a way that it wasn't before.

**Riley:** You're a professor accustomed to giving grades. What grade would you give the Clinton administration in economic policy and the President himself as a student of economics?

**Blinder:** Very high. I'm not a disinterested party here, and I could give lower grades on certain components. But I think, and again mindful that we have to grade these things on a curve, I give an A to both.



**Riley:** I had intended to ask you earlier, were there any idiosyncrasies about Clinton's own economic thinking that you found frustrating to deal with, or did he have some notable blind spots in an otherwise very strong record of understanding?

**Blinder:** Yes, he had some, and they were attributable to what I mentioned before—that he was a Governor. He came with a Governor's attitude, which is not a big picture, it's more nitty-gritty, from the weeds up rather than from the treetop down. That showed in a number of ways. Another thing is—we were really worried about this—we thought he would go the wrong way on the balanced budget amendment. He always had to balance the budget in Little Rock. All the Governors have to balance the budget. Most of them don't perceive the difference in balancing the national budget and balancing the state budget. It's a world of difference, but they don't really understand that very well.

Early in the Clinton administration—you brought this up in the context of Leon Panetta—I was really worried he'd go the wrong way on the balanced-budget amendment. We urged him, we had meetings on this. But he was hearing the opposite from the politicals, because there's no question that, if you Gallup-poll the balanced budget amendment, it always won. People didn't have any distinction among the following three concepts: we need a smaller deficit, we need a balanced budget, we need a balanced budget amendment to the constitution. In the public consciousness, that all meshed into one, and they thought it was a good idea. To us, those are three very different things.

I really was worried we were going to lose Clinton on that, but we didn't. He came around to the arguments. But Governors tend to think that way. Howard Dean, if you've caught him, he's now starting to back away from it, fortunately. But I heard him tell Tim Russert he believes there should be a balanced budget amendment to the Constitution. I almost died watching this on television. He's a Governor, typical Governor's attitude.

**Gilmour:** Are there any other issues similar to that where he started off thinking one thing and then you could bring him around to a more economist's view of the issue?

**Blinder:** That's a good question.

**Gilmour:** I ask you because lots of people have said he's a good student and—

**Blinder:** Very good.

**Gilmour:** —learned quickly.

**Blinder:** I'm trying to think about, for example, trade. Trade was one of those things. It was as if he knew freer trade was a good thing but he didn't know why.

**Gilmour:** He wasn't a great exponent of free trade when he became President, but he turned into one.

**Blinder:** He became one, so that may be an example. I'm not sure to this day, if he was here now, that he could give you a good disquisition on Ricardian comparative advantage. You don't want to underestimate this guy. He might be able to do it beautifully. I'm just not sure about that.

Take the issue I was just speaking about in the context of his legacy—what deficit reduction is all about, or why do you want to run surplus in certain circumstances. First of all, he wasn't too much interested in it during the campaign, and then his view was this was about jobs. He gradually migrated to what I think is the proper view of what you're trying to do when you run smaller deficits or bigger surpluses. I think he learned a lot about that. There I'm sure he could give you a good disquisition. He could teach a class on that and get it basically right. I'm sure he could do that.

I'm trying to think of some of the micro issues. He certainly learned a lot about healthcare the hard way, and he developed a very good understanding of the issues.

**Riley:** We're coming at our questions from the general framework of political scientists and historians. What would your colleagues 50 years from now, in your discipline, point to as the linchpins of this administration? What's the evidence that they ought to pay most attention to if they're truly going to understand what—

**Blinder:** It's very clearly budget discipline. I have no doubt in my mind that in the fullness of time, history is going to associate Clinton with three things: budget discipline, turning deficits into surpluses, presiding over the greatest prosperity probably we ever had in this country—partly his doing and partly by luck—and impeachment. He got impeached. I think the capsule profile of Clinton written 50 years from now is, "This is the President who presided over the greatest period of prosperity in American history and was impeached by the U.S. Congress." I think that's going to be the opening sentence. It's a shame, the latter part, a shame. But that's the way it is.

**Riley:** That's why I posed the question the way I did, because I think there's a propensity on the part of political scientists to pay an enormous amount of attention to that, for very good reasons.

**Blinder:** To the impeachment.

**Riley:** Yes, to the impeachment. But we have a very good source here about an area in which his legacy may not resonate as strongly because this isn't the area that the historians and the political scientists tend to focus on.

**Blinder:** I guess that's right. I think it will resonate very strongly because I think basically we are now replaying history. Bush II is destroying budget discipline, just as Ronald Reagan did. It may take another 15 years, as it did the first time, to get this right. And then people are going to look back at Bill Clinton and say, "We really had control of this thing, why did we lose control? It was right in our hands in the year 2000 and we let the whole thing go to hell again. Wasn't Bill Clinton right about this?" So I think it will come back, the revisionist Clinton history will start around then.

**Weatherford:** One smallish question, which was cued by your description of Greenspan at the Fed and his position as chairman. Clearly the point is not to orchestrate deliberation. The last thing you want to do if you really want a deliberation and you really want your advisors to open up is to withhold your opinion and somehow to make sure that everybody gets a hearing. Was Clinton good at that or did he tend to show his cards early and make it clear what the President wanted to do?

**Blinder:** No, I think he was very good at that. He liked to have these wide open, somewhat raucous meetings where you heard a lot of different opinions. Often in these meetings he would not say what he thought, and he would just go away. Sometimes he would, sometimes he wouldn't. I remember one in particular, it must have been over a trade issue where Laura and I were way in the minority on the free trade side—on some particular issue, I can't quite remember which. Here I was, a sort of junior guy, and he pointed at me and said, "What do you think?" This was after the Secretary of Treasury, the Secretary of State, and so on had all opined on the protectionist side of whatever this question was. But he had a good idea of what I was going to say, and I took the bait and I did it. But I was a pretty junior guy around that table. He didn't need to do that, but he wanted to hear my view. He wanted to give me a chance to make the argument against protecting the aluminum industry or whatever was on the table that day. I can't remember. He was like that.

**Riley:** I have to say thank you, it's been an illuminating and fun day for us and I know that future generations of students who are coming back and looking at this in some form will be very grateful for your taking the time out of a busy schedule to do this for us.

**Blinder:** I hope so because that's why all of us take the time to do this.

**Riley:** Exactly. Thank you so much.