

THE SENATE BUDGET COMMITTEE

Interview #2

Tuesday, December 19, 2006

RITCHIE: When you came back from the Agriculture Department, that was the beginning of your career with the Budget Committee and with Senator Pete Domenici. You said that Senator Dole mentioned that Senator Domenici needed some help.

HOAGLAND: Right, I came to the Budget Committee in August of 1982. At that particular point, the Senate Budget Committee was located over in the Carroll Arms Hotel across the street. Staff were placed in individual hotel rooms. They had their own showers, although most of them didn't work. As I said in my previous interview, it was a rather coarse environment. There weren't a lot of amenities other than we were connected to the Senate floor through the squawk boxes. There were no computers. Of course, we had some electronic word processing machines, but they were limited. And any kind of spreadsheets or other technology we have today just didn't exist yet. It was all done on hand calculators. The first person I met was Sid Brown, who was an old Bureau of the Budget man. He had been brought onto the committee by Ed Muskie when the committee was started, and remained there when Pete Domenici took over in 1981. The other person who was there at the senior level was Bob Fulton, who worked for Henry Bellmon, a senator from Oklahoma. Senator Bellmon had chosen to retire in 1980, and did not run for reelection, or he would have been the chairman of the Budget Committee. I guess he never realized that he was going to be passing that up because I don't think they expected that they were going to gain the Senate in 1981.

My first responsibility, because I had some agriculture background, was to be assigned to the agriculture budget, natural resources, space technology, those functions of the federal budget, to help prepare the budget. The staff director was Steve Bell, "a wild and crazy guy," we used to say. He had the confidence of Senator Domenici as the chairman, and I worked with him. Very intelligent, very smart, very quick. Very politically savvy as well as media savvy. Steve Bell came from a press background. In fact, he was Domenici's press secretary before he became his staff director.

Those early years over in the Carroll Arms building are a little bit of a blur for me right now, but we were involved in 1982 and '83 particularly, after the 1981 major

changes to the budget process. In 1981, Congress instituted a major thrust forward on the federal budget. Along with President Reagan, his new OMB Director, David Stockman, and Majority Leader Howard Baker, Pete Domenici, and others, focused very quickly on using the budget process in a way that had not really been used extensively. That was applying broadly a provision within the Budget Act that allowed them to do what we call reconciliation. I may have mentioned this in the previous interview, a reconciliation was used at the end of the Carter administration, but on a very minor scale. In the case of 1981, it was a major scale. David Stockman, a young former congressman from Michigan, understood this "new process" and chose to use the process in a way that had not been used before. They applied this expedited procedure, not only to have a budget adopted with the broad parameters as an accounting tool, but also to implement the policies assumed in that budget through the forcing of a substantive reconciliation bill. Something new, not really ever used before at this level of detail. On a foggy day out in California, on a mountaintop, Ronald Reagan signed the Omnibus Reconciliation Act of 1981. Then in 1982 and '83, as the deficit continued to grow, there was some retreating on those policies, on the part of Congress, and pressure from Congress, particularly Senator Dole and others, to find ways to continue to reduce the deficit that continued to grow after the tax cuts of 1981.

I think David Stockman's book *The Triumph of Politics* highlighted the fact that he claims that the problem was that the Congress never followed through with the spending side of it, only the tax side of it, and therefore it was Congress' fault that we were not lowering the deficit in those early years of the Reagan administration.¹ So in 1982, when I arrived, and in '83, the thrust was a reconciliation bill again that would reduce spending. The rule of thumb that Senator Dole was pressing for was \$3 spending reduction for every \$1 in tax cuts. So most of the time we spent trying to figure out a way to continue the reconciliation process in '82 and '83 to achieve those kinds of goals.

All of this led up to the few major dates that stick in my mind. Beginning in late 1984 and early '85, the federal debt of the United States—statutory debt—was approaching the two trillion dollar mark, and we were passing that historic mark. The last

¹David A Stockman, *The Triumph of Politics: How the Reagan Revolution Failed* (New York : Harper & Row, 1986).

action of both Steve Bell as staff director, and at that point I was his deputy staff director, and Sid Brown and others, was pressed on us by a new first term senator here in the Senate, Phil Gramm.

My memory of this sticks with me to this day, that Senator Domenici was having in '84 or '85 some family health problems with one of his daughters. He was, understandably, distracted from the work around here. And this very aggressive and very forceful and very knowledgeable senator, Senator Gramm, came to his office one day and said he had an idea. His idea was to reform the budget process that now had basically gone on for—I think it was its tenth year anniversary or so—with a new mechanism that would not only set the goals, but enforce the goals. Out of this, Senator Domenici was willing to pass the responsibility on: "If you've got a better idea on how to avoid this fact that we're now going to pass this magical mark of two trillion dollars"—that was the triggering factor—"then go to work on it." Of course, out of this came what we call the Gramm, Rudman, and Hollings Act, which was, in my mind, a seminal piece in the budget process. Up until that time, we set goals, and I guess that reconciliation came in 1981, but this was a change in the process in a way that forced not only goals but forced an outcome.

It changed the whole process dramatically, because up to that time you could set the goals but if you didn't achieve the goals, maybe the Budget Act points of order will enforce it, but if not, so what? But this was something much more dramatic. It was a Sword of Damocles, according to Senator Gramm, hanging over us if we didn't meet these specific targets on the road to reaching balance. We were supposed to get it to balance in 1991 on this first Gramm-Rudman-Hollings Act. This act set specific targets and a whole new budget process was written. It was eventually adopted and included not by reforming the Budget Act per se, but when the debt limit bill came up to raise it to two trillion, in order to appease those who didn't want to vote for that, this amendment, this big amendment, was added to the debt limit increase. I don't know why I remember this, but it was also that same resolution condemning the murderers of Leon Klinghoffer, the gentleman in a wheelchair who was killed on the *Achille Lauro*. Gramm-Rudman-Hollings was the basis upon which then the votes would be there to pass this magic mark of two trillion in debt and gave cover to, if you like, the conservatives to vote for that because now we had a mechanism that was going to insure that we were going to reduce the debt as we went forward. It was put on the debt limit bill and became law. That was

the last legislative agenda for Mr. Bell, Brown, and others. They left shortly thereafter and then I became the staff director in 1986 to implement and carry through with this.

The next major marker in the history there was in 1987. By the way, the first year, 1986, there was one very, very small sequester. This Gramm-Rudman-Hollings set up a—I always thought it was a Texas word because I'd never heard of it before—"sequester," which was a mechanism by which we reduced, across the board, all spending if we didn't hit an exact deficit target. There were lots of complications and lots of difficult calculations involved, and accounts of what was included and what wasn't included in these across the board cuts if we didn't hit our target. There was a question about the constitutionality of the law because it first set up a mechanism by which the Comptroller General of the General Accounting Office at that time would validate the sequester. That became questionable constitutionally and separation of powers authority. The case of *Bowsher v. Synar* went to the Supreme Court and it was struck down. But there was a fallback mechanism that continued in place under the existing law. And so the first year, '86, it worked.

Then we went into 1987. I don't remember all the details, but my recollection is that the economy was not doing well. We failed to get a budget resolution agreement and it was all the way into the fall of 1987. Then the triggering device, in 1987, for action, was number one, we were faced with a Gramm-Rudman-Hollings sequester. And it was big. It didn't exclude anything and it meant something like almost a fifty-billion-dollar cut in the Department of Defense. Just an across-the-board cut. These were things that just couldn't happen, just politically it wasn't possible. So we were deliberating changes to the targets. The real triggering factor, however, besides the unachievable Gramm-Rudman-Hollings goals, was Black Friday in October of 1987 when the stock market dropped precipitously on the issue about the dollar currency. Out of that came a summit meeting between Congress and the White House.

It was one of many budget summits that were to follow throughout the latter part of the '80s. There had been some in the early '80s, but basically these were major sit downs between the Congress and the White House on fiscal policy issues. In 1987, Howard Baker [the White House chief of staff] and James Baker, then Secretary of the Treasury, and Pete Domenici, and Lawton Chiles from the Senate and Bill Gray, who was the chairman of the House Budget Committee, began these meetings to see if there was a

way we could figure out how to avoid or to resolve the sequester that Gramm-Rudman was about to require. We kept delaying it, but it was due or should have taken place on October 1st. We tried to see if we could come to a budget agreement.

Out of this came, in 1987, an agreement between the White House and the Congress. It essentially reset the calibration of Gramm-Rudman-Hollings, and we set a new goal for '87 and pushed it out further in terms of reaching balance in the federal budget. We set what was later to become, and still is to this day, another new element of the budget process in the 1987 summit, which was caps on that portion of the budget referred to as discretionary spending, the appropriated accounts. We set those caps for '87 and '88. It was a two-year budget agreement essentially. These caps on discretionary spending then allowed for the completion of the appropriations process in 1987 and 1988. It also allowed us to proceed with avoiding the sequester and setting the sequester off into the future. It claimed to be putting us back onto a path to reach balance in the mid-1990s. We were able to pass almost all of the appropriation bills quickly then after we reached that agreement and moved on.

The clock ticks on and 1990 was the next big mark in the Budget Committee's history as I think back on the events of the time. Once again we were faced with not meeting our Gramm-Rudman-Hollings targets and faced with another major sequester. This time we went all the way into August and September and another major summit was called. This one was referred to as the Andrews Air Force Base Summit, because we were to be "sequestered away"—using that term again—out at Andrews Air Force Base in the latter part of August and early September. Before Congress came back, we were going to fix this thing once and for all. Leon Panetta was the Budget Committee chairman from the House of Representatives. Pete Domenici again. Bob Dole now being the Minority Leader of the Senate. Bob Byrd was out there. John Sununu, Sr., spent a lot of time out there. So of course did Phil Gramm and a number of the fiscal people on the Budget Committee who were involved in these sets of negotiations. And Dick Darman was the OMB Director at that time.

What evolved out of the 1990 summit was a further refinement to Gramm-Rudman-Hollings. It was a refinement in the sense that these sequesters that I spoke about that came about with the original act were across the board on everybody. What was pushed primarily by Leon Panetta and the House was a way to say: "Wait a minute.

For those kinds of accounts that are annually appropriated, such as defense or non-defense discretionary programs, we ought to have a separate set of rules for them like the caps that we had in 1987 and '88." That's why I say that they became integral. We should set a mechanism that says if they violate then we have sequesters within that group of spending programs. Not that they should suffer the fact that Medicare or the entitlement programs were growing at a faster rate than was perceived.

For the entitlement programs, basically fifty percent of the budget we should have something we call pay-go. Pay-go meant that if you were to add to the deficit by increasing entitlement spending, you had to offset that by either raising taxes to pay for the entitlement or reducing other entitlement spending. We kept the discretionary budget and the entitlement budget separate in the sense of the enforcement mechanisms. For all practical purposes, we did away with statutory goals of balancing the budget and saying that these mechanisms would force us in a disciplined way to achieve our objectives.

The time we spent out at Andrews Air Force Base was very hot. A couple of stories that I'll never forget, I had a old Mustang car that, being the cheap staffer that I was, did not have air conditioning in it. This was a time when Senator Domenici smoked, and I picked up Senator Domenici up down here at the corner by the Senate office building. One day, Senator Gramm wanted a ride with us. I put him in the car and Senator Gramm said. "Roll up the windows and turn the air conditioner on." I said, "well I can do one or the other, I can't do both."

The other thing that sticks in my mind at Andrews Air Force Base was that the Air Force provided food out there and we actually slept out there. We stayed in dormitories. The amount of food they provided was unbelievable. But one thing they had special was a self-dispensing ice cream machine. Senator Dole just loved that machine and he would spend more time getting ice cream out of this machine. It's funny how you remember those things, but we did get some work done and we did come together. Well, the difficulty, however, was that when we came back with the agreement, a group of backbenchers in the House of Representatives, one of whom happened to be Newt Gingrich, opposed the agreement. The first proposal that came back failed in the House of Representatives and we had to negotiate it over. Tom Foley was Speaker of the House at that time. We had to go back and renegotiate. So all of the time spent at Andrews Air Force Base was for nought in some ways because we were unable to achieve passage in

the House of Representatives, because what was involved was a compromise, including revenue increases—tax increases.

Of course, this became a problem for some who said that President [George H.W.] Bush had made a commitment, "Read my lips, no new taxes." This was a failure on our negotiating part as a compromise and was the basis upon which, initially, I think, the proposal fell apart. But we did come back and eventually put it together, but this was a black mark on Dick Darman at that time. Later, in the history books, I think you'll find that President Bush said that it was a mistake on his part to have agreed to the Andrews Air Force Base proposal, and that may have cost him the election when he ran against Governor Clinton in 1992.

We at least established, coming out of Andrews Air Force Base, the pay-go procedure, and the sequester procedure on discretionary spending, which then lived on until about 2002, when it expired in terms of the statutory pay-go provisions. While we are at Andrews Air Force Base, in August of 1990, a little event took place in the Middle East. This is the first time when Mr. Saddam Hussein moved across into Kuwait. At the time we were putting together this budget plan out at Andrews Air Force Base, we had no idea of exactly what the consequences of that were going to be. But Mr. Darman and, I believe, the Secretary of Defense [Dick Cheney] came out at that time and briefed members. What was discussed was that there was going to have to be an emergency appropriation. It wasn't clear how much was going to be required. Also it was anticipated, which it did turn out to be the case, that our allies would fund this. We would make the initial contribution, but we would be repaid through our allies' support.

So the next major budget issue that we addressed in 1990—and it's always been a problem with this budget process—was emergency spending, unanticipated spending, things you hadn't accounted for. How do you handle those things? That was discussed also at some length out at Andrews. We'd had emergency spending, but we just kind of ignored it. We actually tried to write into budget law a provision for unanticipated and unexpected spending that would not count against the spending caps. They would be outside the caps and they would not, therefore, subject spending to sequesters, because they were truly unanticipated. That was the beginning of the emergency designation for spending and it was, therefore, an element that to this day still remains. But it still remains very controversial also as to what is an emergency—in fact, the war that we're

involved in right now continues to be “defined” as emergency funding need.

I think the next big issue in terms of the Budget Act was in 1995. Now we have a new President, President Clinton. Now we have a new Speaker of the House of Representatives, that previous “backbencher,” Newt Gingrich. Senator Dole was still the Majority Leader in the Senate. Pete Domenici, once again, served as Budget Committee chairman. Now we have a President who believes that we should try to achieve a balanced budget by cutting spending, but also by raising the revenues. And so his first budget plan—with a Democratic-controlled Senate and House—does pass in August of 1993. It passes by one vote, a tie vote in the Senate broken by the Vice President, Al Gore. While the President worked hard on this particular proposal, off to the side Senator Gramm and others said that this was going to put the country into a recession and things were going to go bad. Surprisingly for those who thought that raising taxes was going to tank the economy—the economy boomed. We were dealing with the dot.com period and great growth in investment and stock markets booming and the revenues were coming in even faster than anybody had anticipated. Capital gains were very high. And we had a peace dividend, to some extent. The Iraq War and the Kuwait invasion turned out to actually make money, since we received more from our allies than we had expended. So the fiscal picture was looking very good.

Yet it was still not there, and after 1993 and going into 1994, we were still running a deficit and so there was a major movement to try to achieve a balanced budget now that we had Newt Gingrich in control in the House and Bob Dole in the Senate. We ended up putting together various Republican plans to cut spending. A plan to lease ANWR, the Alaska National Wildlife Refuge, is one thing that sticks in my mind. We passed these reconciliation bills and the President vetoed them. We were also facing another debt limit increase that fall, and a crisis developed. The President had vetoed and not signed appropriation bills into law because they cut deeply his funding requests. A stand-off occurred and we ended up starting a government shutdown. In the fall of 1995, for some 26 days, the federal government was actually inoperative.

My wife is an art historian and teaches art history and I recall—again, you always personalize these things thinking back on it—she had tickets to the Vermeer exhibit at the National Gallery of Art. She was more upset with me about the fact that she couldn’t go to the Vermeer exhibit than anything else, because “we” had closed down the National

Gallery. That fall was one of the toughest in my career here. We put in long, long hours, first trying to find a way to get an agreement with the White House and then falling back. We went through Alice Rivlin, who was the OMB Director at that time, to be replaced by Leon Panetta, and we ended up spending literally all of the week before Christmas in the West Wing of the White House. We met in the Roosevelt Room at the staff level around a large table as negotiations continued throughout those winter months.

One evening there was a tremendous snowstorm and for some of us who lived outside the Beltway it was hard to get home, but for the President, of course, it was no big deal. He just went upstairs. We spent an inordinate amount of time there and it wasn't until after the New Year that we finally got to the point where we had negotiated something that would keep the government operational and move on. People who went up to New York City found the Statue of Liberty shut down and various other things. It really messed up everybody's holiday season, as I recall.

That low point eventually led to a high point in my career. Beginning in 1995 and 1996, we held serious open discussions with the administration that led eventually to the Balanced Budget Act of 1997. In 1997 there were more long discussions. Now it was John Kasich as the chairman on the House side and Pete Domenici, again here in the Senate. Franklin Raines was OMB Director. Bob Rubin, as Secretary of the Treasury, played a major role throughout this period of time. Congressman John Spratt and Senator Frank Lautenberg were involved in a very open discussion.

Throughout that period of time is probably when I played the biggest role I have played in fiscal policy around here. I organized meetings with OMB, the administration, Democrats, and Republicans. At the staff level, we worked through all the issues, segmenting them into Medicare, Medicaid, housing, a magnetic spectrum, defense and non-defense, all of the issues. We would meet regularly. We'd build up solutions as we'd compromise, and then we'd take them to our principals. We worked out of the Domenici hideaway, on the lower level of the Capitol. We came to an agreement for a balanced budget agreement to be implemented that eventually became both a tax piece, with some small tax reductions, but also a big portion of it was on the Medicare and the health side; restrictions on the growth and lowering the rate of growth in spending, if we could, through various price indices and things of that nature, in the Medicare program. We also had the discretionary caps. We built up a very substantial budget and then

passed that as a budget resolution. It was bipartisan and there was a great deal of support for it. It extended some of the pay-go and the other parameters of the Budget Act. Then we passed two reconciliation bills: a tax reconciliation bill and a spending reconciliation bill to implement this proposal.

That was Fiscal Year 1997, and we ended up declaring victory. The next year, 1998, Chairman Kasich decided he was going to run for president. We had just finished all of this and as we go into 1998, and Chairman Kasich says, "I'm running for President, and I think we can go further. I think we can cut more spending." I remember going to Senator Domenici that year, because we have to do this annually, put together a budget resolution. I didn't want to go through it again. We had just finished all of these negotiations, so I said, "Let's just do a "vanilla" budget resolution, basically restating in 1998 what we all agreed to in 1997. We had these caps and everybody is in agreement. Let's just live with what we've got and see how it works out." I could see what John Kasich was up to. He wanted to reopen the 1997 budget agreement. And I thought, oh, this will never work.

So what I did for Senator Domenici at that time was to go and tell him, "Listen, we better pass a budget resolution, but let's just basically reestablish and update the numbers if they need to be updated for economic reasons, to what we've already agreed to. Let's not open it up again. We're going into an election year, let's not get this thing all messed up again." And he agreed. So we passed a budget resolution here in the Senate in 1998 that was basically a vanilla budget resolution, a five-year agreement, and sent it to the House. But we did one thing that was smart, I think—I hope it was smart on my part—I said before we sent it to the House that night, "Let's do something. Let's deem the Senate-passed budget resolution, for purposes of enforcement in the Senate for the Fiscal Year 1998 and beyond in case we're not able to get a conference agreement with the House of Representatives." Because I had this feeling that John Kasich had an agenda that was going to make it very difficult to get a conference agreement. That's exactly what happened. That was the first year that we did not have a conference agreement on a budget resolution, in 1998. Again, it was driven by the politics of the House. I like John Kasich. He's a smart man, but he had to keep pressing the issue as much as he could.

Maybe it wasn't totally necessary. It was ten years ago that we had this balanced budget agreement. Next year will be the ten-year anniversary of it. Because we actually did, then, achieve balance. It was surprising to some people, and a couple of years ahead of schedule than what we had planned. While we'd like to take credit for that, the truth of the matter is that a lot of it had to do with the growth of the economy. So the 1997 agreement, followed by the 1998, had lots of peaks and valleys here. The failure of the 1995 government shutdown, and then the peak of the 1997 agreement, and then the failure in 1998 to get a budget resolution. It was just lots of to and fro in terms of emotions.

But we actually got to balance. What was more important, I think, in 1998 was the first time we achieved balance in nearly fifty years. In 1999 we achieved balance not including what we call the Social Security surplus. We actually didn't have to have the Social Security surplus to achieve balance in 1998. The economy was growing. We had a new race for the presidency in 2000. Both the Congressional Budget Office and Alan Greenspan and others were looking at these projections of surpluses into the future. Huge surpluses. Both Democrats and Republicans, both Al Gore and the current President Bush, campaigned looking at these large surpluses in the future. So what became a campaign issue in 2000 was what to do with this huge surplus that was being projected. Maybe we shouldn't have focused so hard on it, but that was everybody's independent view. It wasn't made up. Legitimate forecasters were saying we're going to have eight, nine trillion dollars of surplus over the next ten years. Alan Greenspan, who, pretentious on my part, I became friends with during this period of time, came before the Budget Committee to testify and he was worried in so many ways that he expected that we would actually have so much surplus that we would eliminate the debt. We wouldn't have any debt. We wouldn't have any Treasury bills. He needn't worry too much.

Also what happened in about 2000 with this growing surplus projection was another little phenomenon that became critical in 2001 and thereafter, and that was we should balance the budget now excluding the Social Security surplus and that we should "lockbox" away the Social Security surplus for debt retirement or save it for Social Security retirees. That's what it was there for. Lots of issues. So we had the controversial election of 2000, settled by the Supreme Court at the end. But these projections were still there when Bush took office in 2001. So the new president proposed a very large tax reduction to reduce this surplus, to return some of the surplus to

the American public. It was \$1.7 trillion over a ten-year period, that was to be returned. It would be returned along with the fact that the remaining surplus could balance, not excluding the Social Security surplus. The other issue was prescription drugs. We could use some of this surplus for something that began under the Democrats; to provide for prescription drugs for Medicare recipients.

And we began 2001 with this rather large budget. I think Senator Domenici was a little bit more skeptical than I was about those projections. I wasn't entirely without skepticism, but I had worked with numbers long enough to know that they can turn very quickly and that it depends on lots of things that maybe you can't anticipate around here. So we ended up proceeding, after some pressure from the administration. Larry Lindsey was the National Economic Advisor at the time. We passed a budget resolution that assumed large tax reductions, and a reconciliation bill. One of the controversial issues would be that we were using this process that began back in 1981 under David Stockman and Ronald Reagan for reducing the deficit by using reconciliation. But we were using reconciliation to reduce the surplus. We were using an expedited procedure here to pass legislation that was unamendable. It limited debate, limited amendments, and it could not be filibustered. We were using this process to lower a surplus, not to reduce a deficit. It was subtle but very fundamentally different than what reconciliation had been used for up to that time.

But it went very fast. We got it done very quickly in the spring of 2001. All the way through, the new president, the new initiative, the first year of his first term, gave it a lot of momentum and things got done quickly. I think we were done by April or May of that year with both the budget resolution and reconciliation bills. The Senate was very narrowly divided.

RITCHIE: It was fifty-fifty.

HOAGLAND: Fifty-fifty with the vice president sitting to break all the ties. Then there was an issue that Senator Jim Jeffords who—I have not read his book, maybe you have, Don.² He has indicated that he had an understanding as to how some of that

² James M. Jeffords, *My Declaration of Independence* (New York: Simon & Schuster, 2001)

surplus was to be expended on a special education program. It's a discretionary program subject to annual appropriations, but there had been these commitments, much like so many other things around here, that we were going to authorize and we were going to fund forty percent of the cost of the states' special education programs. We never reached that level. We got to eleven, twelve percent, maybe got up to seventeen percent. And he, Jim Jeffords, Republican at that time, made a strong stance on the budget resolution and the follow-on reconciliation bill, that he wanted special education to be moved from a discretionary program to an entitlement. I think it may have been one of many factors but not the sole factor, though according to what I have heard, Senator Jeffords believes that it was the sole factor—the failure of that budget in that year to fund special education as an entitlement—that was the basis upon which after this was all over with that he decided to switch parties, and to caucus with the Democrats. I don't know if it was the whole reason, but he, as I said and my understanding is that's the one his book claims that was the major factor.

So now all of the sudden Jeffords switched parties and Republicans lose control. No longer is Senator Domenici chairman after all these years, but now he is the ranking member. We still have this surplus being projected. That very summer, 2001, the Senate Budget Committee offices were being remodeled and the Budget Committee staff was moved into trailers over in the Russell courtyard. We continued to have this surplus being projected. But we were now in the minority. Senator Domenici called me and said, "I want you to put together a proposal to lockbox away the Social Security surplus so that we can retain this balance going forward." So literally I'm in my trailer on the morning of September 11th on my computer writing the speech on a proposal that Senator Domenici was to give later that day on the floor of the Senate to lockbox away the Social Security surplus. I keep two TVs, one tuned to the Senate floor and one on CNBC on mute, so I can keep track of the market and what's going on. I looked up and saw the smoke coming out of one of the World Trade towers. I didn't think too much about it and I turned back and continued to work on my speech for Senator Domenici. A few minutes later, one of the staff came in and said, "You'd better look again." Now the second plane had hit, and there were rumors that something's happened at the State Department or the Pentagon. I put away that speech on lockboxing the Social Security surplus and I've never opened it up again, because everything changed dramatically within a matter of minutes. Both the fiscal outlook and that surplus went away real quick. We had reached a peak surplus, close to two hundred billion dollars. We went from some of the largest

surpluses ever recorded in this country to the largest deficits ever recorded in this country. And the economy turned. The bubble burst. We were attacked and fiscal policy changed dramatically.

That then set the stage, it seems to me, here for the remainder of my career in the Senate, in the sense that after having played some small role in helping us get to fiscal balance, we went into deficits and we have remained there, with some improvements along the way. Senator Domenici and I are very close and have been through a lot together. In the following year, in 2002, we did not even pass a Senate budget resolution. Under Kent Conrad, we didn't even consider it in the Senate. That was the second time: 1998 with John Kasich, and then in 2002. So all of a sudden we began to ask: Wait a minute, what's going on here? We're not even following through with the budget. Yes, things are controversial. Yes, there's a lot of turmoil in the world, but the fundamental role and responsibility, it seems to me, of government is you still have to have a budget. But we didn't even have one here.

So we went through 2002 without a budget, and that became an issue, of course. Republicans were in the minority and said that, "Well, the Democrats can't even get a budget." We failed to get appropriation bills done. We went into the election and the Senate switched. Tom Daschle lost his race in South Dakota and Senator Lott then became heir apparent to be the Majority Leader. That was also Senator Domenici's election year in New Mexico. I'm not from New Mexico as I told you before, Don, but I made a practice of whenever Senator Domenici was up for election that I would take leave from the Senate and I would go out and help him out making phone calls or knocking on doors or whatever.

I went out to New Mexico. It was a tough fall. Right before a debate was to take place in Las Cruces, New Mexico, I received word that his friend, Senator [Paul] Wellstone, had been killed in an airplane accident. Senator Wellstone and Senator Domenici worked together on mental health issues. So it was hard. The debate in Las Cruces was cancelled. Senator Domenici flew up to the memorial service in Minneapolis. He came back to New Mexico and I was still there helping out with the campaign on the night of the election. When it was clear that he won, he stopped me as I was congratulating him and he said, "Bill, I want to do something fun for a change after all these years." I said, "Yes, Senator, don't worry about me. I've had a good career and

it's probably a good time for me to leave. Don't worry about me, Senator." He said, "No, no, no, I want to do something fun for a change." I said, "Well, Senator, what do you want to do? What do you think will be more fun?" He looked at me and said, "I want to be the chairman of the Energy Committee." I said, "Senator, go right ahead." Electricity regulation fun? But the budget had just consumed all our time all these years. The Budget Committee was not a popular committee to be on, particularly if you're chairman, having to enforce whatever you come up with. So he said, "Well, why don't you come over." I said, "no, Senator, I don't know anything about energy. I love you, but you've got better people that know energy policies and can work with you."

So I was ready to leave the Senate in December of 2002. But right at the first part of December, I received this phone call from Senator Lott and he said he wanted to see me. I thought, oh my gosh, what have I done wrong now, because Senator Lott and I had disagreed on a few issues in my career, but we still got along. I went over to see Senator Lott, and he said come on into his office and he shut the door. It was just Senator Lott and myself. He said, "Senator Domenici's going to leave the Budget Committee." And I said, "Yes, sir." I figured that what Senator Lott was angling at is that he thought that I was trying to prevent Senator Domenici from leaving, to protect my hide. I said, "Yes, sir, I have no problems with that, he should do something that he's happy with and I'm not trying to—" He said, "No, I want you to come work for me." And I said, "What?" I couldn't believe it. I'll never forget I said to him that—I guess when you've been around for awhile you can say these things to a United States senator—I said, "well, Senator, I didn't think you liked me." Literally. He said, "Oh, I've had some reservations about you, and particularly that gang you hung out with sometimes. Keith Kennedy, Sheila Burke." We were referred to as the "raging moderates." I said, "Well, I'm honored, Senator."

The part that I guess I should have known—but then he said, "But I really want you to be over here because you know something about the budget and I want you to keep an eye on the new chairman of the Senate Budget Committee coming in." That was Don Nickles. I thought, well this is going to put me in a real interesting position. I thought that Senator Nickles and Senator Lott got along, but maybe not entirely. So I said, "well, let me think about it Senator." Between the time I'm thinking about it and getting back to him, Senator Lott has made a faux pas as it relates to Senator [Srom] Thurmond and the next thing I know he's departing the leadership.

I thought, oh great, that takes care of that, I don't have to worry about that, I just have to worry about the next job in my life. Then on Christmas eve, 2002, the phone rang. It was literally on Christmas eve and it was Senator Bill Frist. He said, "I know you had planned to come over or were thinking about coming over with the leader's office. I want you to continue to think about that." I had known Senator Frist since he was a freshman on the Budget Committee. Particularly, he had focused on health care issues and worked on education issues. So I said, "Well, I'm honored and flattered and I will get back to you." I did, and I told him, "Well, okay, I'll come over for a little while. I'll help you out getting started. But I'm not going to make any commitments for the entire time because I think the time has come for me to leave." Here it is four years later and he's leaving and now it's time to leave.

I did go ahead and take the position with Senator Frist. My first job, I think—in this time when we're hearing about how we failed to pass appropriations—I have to remind people that sometimes history books and the newspapers don't always look back—I have to remind people that my first job in 2003 was to pick up on the fact that in 2002 we had not passed a budget and we had only passed two appropriation bills and that we were on a continuing resolution to January 7th 2003. We were coming right back quickly and the first thing laid on the lap of this new majority leader was to fund government. So what goes around comes around. The same thing that's happening to the Democrats this year happened to Bill Frist coming into 2003 with only two appropriations bills passed. So my first job with Senator Frist was quickly working with Speaker [Dennis] Hastert and others to put together an omnibus appropriation bill and get it out of the way. We didn't finish until the end of February before we could even start on the next budget cycle.

Senator Frist was always a gentleman, and always good to me. I like Senator Frist. I will always respect him, particularly, no question, in terms of his medical prowess. I think that's what he loves more than anything else. I did expand out in the final years here with issues that he was interested in. One that he was particularly interested in was water for the poor. We worked with Paul Simon before he passed away and then with his widow. One piece of non-budget related legislation that I'm most proud of, and I think he's most proud of, was the passage of something called the Water for the Poor Act, Paul Simon Act, that tries to expand the availability of potable water to developing countries, particularly Africa, where he has a keen interest. He's also

interested in AIDS but, of course, with AIDS, it was pointed out to me that if you take those drugs with unclean water, it doesn't do much good.

The tsunami that hit Indonesia also was a major issue in 2005 and again another water issues. So there were some interesting side things. I was disappointed in the final years here that, in some ways, politics took over again. He was being pushed, I think, by some to consider a presidency run. He may still do that in the future, I don't know, but obviously not for 2008. I think that shifted his focus a little bit. And if I have any one regret in my career with Senator Frist it was at a staff meeting—we would have staff meetings just about every morning, early at 7:30, 8 o'clock sometimes. One morning an issue came up about a young lady in Florida who was on a ventilator. One of the staff said, "You've got to get involved in this." Senator Frist said, "I don't know anything about this issue." Later he was pushed, I think, by some of the conservative members of the caucus to get involved. We weren't going to go home for Easter until we took care of this young lady, Terri Schiavo. I say the one regret I have in my life is that I sat there. My area does not deal with these social issues and I sat there and I kept thinking, "Don't go there. Stay away from this. We shouldn't be involved." But I didn't say anything. I don't know if it would have changed anything, but I don't think he should have ever gotten involved in that particular issue. I think history will prove that that was a huge mistake on his part. He was under a lot of pressure. I know the family, her mother and father, camped out in his office for a period of time. Nonetheless, that was one of my biggest regrets.

A regret also is that we were not successful in getting Social Security reform done or that we weren't able to find a solution to, quite frankly, to getting back on track to balancing the budget. But those issues will continue long after I'm gone. They will continue to be issues that the country will have to confront in the future. I don't know what else to say, Don.

RITCHIE: Well I have a lot of questions but I don't know what your time is in terms of if you want to continue now at this point.

HOAGLAND: Go ahead.

RITCHIE: I was just remembering, when you were talking about Senator Frist, that Senator Domenici gave the most unusual valedictory for him, essentially that he's the nicest man in the world but he can't pass an appropriations bill.

HOAGLAND: Yes, I wondered if you caught that. I caught that too and I emailed Steve Bell, who's still over here at the Senate, and said: if you knew nothing else about this process, if you were watching this from afar, the first response would be, "My God, after four years, he must have terrible staff people over there that deal with budget and appropriations. Can't they educate the leader on how to bring an appropriations bill to the floor?" I said it half-kiddingly. I know that Senator Domenici was trying to be cute and I think it came off wrong. Interestingly enough, Senator Domenici called me that evening and said, "Somebody tells me that you're upset about something I said," I said, "Oh, I just thought that it was even as much a reflection on poor staff work as it was on Senator Frist that after four years his budget and appropriations staffer couldn't educate him on how to bring an appropriation bill to the floor."

Senator Domenici was upset specifically that we weren't doing his bill. And this last year I've been upset also, but I didn't set the schedule for the floor. There were other "legislative items" that occupied it. I've been in enough leadership meetings to know this last year, and the last few years, that there were arguments made by some conservative senators: "Don't bring appropriation bills to the floor; they're fully amendable, fully debatable. We'll have to vote on difficult issues. We don't want to do that in an election year." So he was getting advice from others to hold off. Had Republicans retained control of the Senate, maybe things would have been different. It's almost identical to what it was in 2002. Had the Democrats won in November 2002, they might have come back and rapidly completed the appropriation bills.

RITCHIE: Well I wondered, you worked with Senator Domenici for a long time. How would you describe him? What was he like?

HOAGLAND: I guess as is true with all of us, he is a complex man. He is a man who I think is very astute politically, a man who loves his native state of New Mexico, who will do anything he can to protect federal funding in that state for the programs and activities out there, particularly Sandia, Los Alamos, the Indians, the Pueblos and tribes. It's a very poor state in many ways. In fact, it is a poor state except for a few oases out

there and very dependent upon the federal support. I think about seventy percent of the state is owned by the federal government when you think about the Bureau of Land Management, the Forest Service, the reservations and what have you. So first of all, I think his love for the state reflects in his effort always to try to protect the state. That has made it complicated when you're also talking about holding down the deficit. Whenever I raised that with him he always said, "Well, Hoagland, I will work my hardest to make sure that we are on a path to keeping spending as low as possible, but once we've established that spending level I'm going to work my hardest to make sure that my state gets as much as it can."

His is a man who loves his family. This is a gentleman who has a large family. Loves his grandchildren, and is very family-oriented. A Senator who with his Italian heritage and his Catholic upbringing is a very honest, decent man. When I first started to work for him he was a big smoker. In fact, I think it was out at Andrews Air Force Base that he stopped smoking, or shortly thereafter, which was good. I think he had a few health scares. A man who after many years is the longest serving United States Senator from New Mexico. A man whose health has not been as good as it should have been over the last few years. I think that's worn on him. But when he's thinking clearly he is still one of the sharpest in terms of public policy. I will always be indebted to him. He didn't have to make me his staff director when he did. He did and we will always remain friends.

RITCHIE: Where would you put him in the spectrum of the Republican Party?

HOAGLAND: Well, like so many things in the Republican Party, that has changed over time. When I first started here I thought he and I were very, very copacetic on fiscal policy. I would say a moderate. Now in the last few years, the latter part of his career, he's become more socially conservative, maybe. But that never bothered me because I just thought that was part of his Catholic background, particularly on the issue of abortion and stem cells and things like that. But I think he has become more complex in the latter part of his career. He's become a little bit more right of center than he used to be. I think he believes that tax cuts are fine, but there was, as I said when we went through the history, there was a period of time where we said, "Well, maybe we should be more careful about those tax cuts."

I think, much like so many of us, he believed very strongly in fiscal discipline and that deficits mattered when I first started to work for him twenty five years ago. Maybe that's not as important today as it once was in his mind. But I still look at him as slightly, just slightly, right of center in terms of the party. The party has become more further right of center. I still think of Senator Domenici as a moderate who thinks government can do good and that there is a role for government and that yes, there are things that government need not be involved in. But, overall, I think he still believes government has a function to play in bettering the lives of people.

RITCHIE: Well how did that play out in, say, during the Reagan administration, when he had a very conservative President and a very conservative House of Representatives? Where did that put him and the Senate?

HOAGLAND: There were clashes early on, particularly on such things as Social Security, where what we refer to as the Dole-Domenici proposal, which was claimed by some to be the basis upon which the Republicans lost control, because he had proposed that we have a one year freeze on Social Security COLAs. That was in 1986, I believe, when we lost control of the Senate. And early on, as I said, there was a willingness on the part of Senator Dole, Senator Domenici, Senator [Bob] Packwood, to compromise and to say yes this is a balance here between revenues and expenditures, even though it did clash with the Reagan administration and the conservative House. So early on he showed more independence, I would say, more willingness to stand up to members of his own party, to reach across the aisle and work, partly because these were senators who had been in the minority for so long and they knew what it was like to be in the minority. So they were willing to reach across the aisle and work with them.

But it did create conflicts, particularly in '82, '83, with the Reagan administration. I remember—I was not in the room at the time—but I remember that we were about to pass a budget resolution. It probably was '83, and we had a level of funding for defense which was not what Caspar Weinberger wanted or what the President wanted. Literally we were in the room ready to put the mark to a vote when the phone rang in the cloakroom and it was President Reagan. He wanted to talk to "Pete." Senator Domenici went back and told the President, "I'm sorry, Mr. President, we're about to vote and that's the way it's going to be." There was a lot more of that early on. Over time, maybe it's just being worn down, beat down, what have you. That ability to stand up and be

independent of other members of the party has been more difficult.

RITCHIE: Well, there were more pragmatists, I think to some degree, in the Senate in the early '80's. I think of Senator Dole, for instance, in that role.

HOAGLAND: Absolutely.

RITCHIE: So he had a little bit more support then for standing up for some of those issues.

HOAGLAND: Yes, he did. Now he looks around and you're right, the support isn't there like it used to be. The core kind of, as you call them, pragmatists, are hard to find.

RITCHIE: It seemed like when it came to the deficits everybody said, "Well, deficits are bad." And when it came to taxes everybody said, "Well, it will be great if taxes were lower." But when it came to spending, nobody could agree on where to cut.

HOAGLAND: Yes, that's right.

RITCHIE: Because whether conservatives or liberals, they all had something that they wanted to spend money on.

HOAGLAND: Yes, absolutely.

RITCHIE: That's what seemed so hard to control. The Reagan administration wanted to spend money on defense, at record levels. So where else were you going to cut in the process?

HOAGLAND: Right. It's always been a trade-off. That's what the budget is all about, finding the trade-offs.

RITCHIE: Well, I wondered about the relationship of the Budget Committee with the rest of the Senate. You've got the Appropriations Committee, which has a role in all this, but then you have all those authorizing committees that think they should be

making decisions about all this. How does the Budget Committee steer through all those standing committees out there?

HOAGLAND: Difficult. It's very difficult. When you go back and think about the origination of the Budget Act, quite frankly, there were two committees that were the most difficult and fought the budget process. That was the Appropriations Committees and the tax-writing committees—Finance and Ways and Means—because they were the big gorillas in the room. They looked at this Budget Committee as a new guy on the block that was somehow going to circumvent them. As I always say, we never do away with anything, we just add. With having been at CBO in those early years, I saw this Budget Committee as not exerting a great deal of their authority, or trying to superimpose but rather, as I mentioned earlier, as being an accounting tool. We've listened, and we've got your views and estimates, and we're just racking up and just having a counting of this. I think when it began in 1981 with reconciliation, that's when the Budget Committee started to exert some of its power that it really had not used up to that point. That's when it began to tell the tax-writing committees, and the spending committees, and the authorizing committees: this is how much you're getting. More importantly, we're going to reconcile you for it. That's when they started to exert influence.

Now I believe, like so many things I've seen over the years around here, in those early years the other committees didn't understand. Maybe the Finance Committee understood, but it was like, "Oh my gosh, I didn't realize. I better stick to what the Budget Committee says." Because it was early and they hadn't figured out the process and so the Budget Committee, throughout most of the '80s, had that authority that the authorizing committees worked with us on, particularly with the reconciliation process. I spent an inordinate amount of time dealing with the staff directors of all the authorizing committees, particularly if we were reconciling and working with them.

The Appropriations Committee under Mark Hatfield, who I loved, clashed early. I'm getting into the weeds here a little bit, but one of the big successes early on was something I still have a yellow paper hanging around where Senator Hatfield went to the floor and said, "I'm going to abide by the Budget Committee's 302b allocation." That means that we had assumed in the Budget Committee what each one of the subcommittees were going to get. He had the right to adjust it however he wanted but he said, "I'm just going to abide by it. I'm not going to get involved in renegotiating it."

So there was this early Budget Committee. I think subsequently as we're seeing now, there was leadership—the key is leadership. Domenici, the White House, OMB directors, who were strong, effective, who believed that the process meant something and that fiscal discipline was important, and that we should be carrying it through, and the committees followed. Somewhere around about the mid-1990s that started to fall apart. It's not to say that the Budget Committees don't still work with the authorizing committees, but I'm seeing a lot more clashes between the current outgoing chairman of the Finance Committee, Senator [Charles] Grassley, and Senator [Judd] Gregg. I don't think I ever saw a clash and some of the hard feelings that you see there today that Domenici would never have had with Packwood or even with Grassley or with Dole. I guess what I was getting at was as people became more knowledgeable about how the process works on the non-budget committees then they're able to figure out ways, "Well we can maybe game the system a little bit or tweak it here to our benefit." There has been, unfortunately, a lowering of regard for the Budget Committee over the last few years. Witness, quite frankly, what I was getting at earlier, that we didn't even pass a budget in 2002, and then we didn't do one this year. We passed one in the Senate but we didn't get a conference agreement. That's three times in the last five years that we haven't and that's very, very disturbing to me.

RITCHIE: The other part of this is that you're dealing with the House all the time and the House is a different animal. It thinks differently and at some points there's just no form of middle ground between the two it seems.

HOAGLAND: Yes, and they have their different set of rules and procedures over there, where here in the Senate, the Budget Act has points of order raised traditionally, over there they're just waived under the rule. So you never really get that kind of oversight that we'd like to see. So, yes, quite frankly, I think it's less effective in the House than here in the Senate. So that when we try to enforce things here in the Senate it becomes a bigger problem for the House.

RITCHIE: It's ironic because actually the rules of the House give the majority party a huge amount of say as to what goes on. It's very hierarchical and the leadership can control what happens on the floor. The rules of the Senate are so diffuse that the Majority Leader has much less authority. So you'd think that the House would have more control and the Senate would have less control in the process.

HOAGLAND: That's right. I think it depends on the leadership over there, both in the Budget Committee and in the Speaker's office as to how effective they are. I believe that you'll see in some strange way that maybe in the House in the new Congress, the 110th Congress, that the budget process will be even stronger than it has been in the past, largely because you have the mix of the new members coming in, along with what are called the Blue Dogs. And Mr. Spratt, who is very good, will have a lot more say than maybe did Mr. [Jim] Nussle and others in the past.

RITCHIE: Well, I have a lot more questions but it seems like you've been here for awhile now and this might be a good time to break. When you come back, I'd like to talk more about Gramm-Rudman and the 1990s, to get a little bit more detail.

HOAGLAND: Sure. I thought I'd better just get it out first.

RITCHIE: Sure, it's much better for you to set out the terrain and then for me to ask some follow-up questions.

End of the Second Interview