Riley: The David Cutler interview is a part of the Clinton Presidential History Project. Thank you for making time in your schedule to be with us.

Cutler: Thank you.

Riley: Please identify yourself and say couple of words so the transcriber can identify you. I’m Russell Riley, a research professor at the Miller Center for Public Affairs and a project leader for the Clinton Presidential History Project.

Cutler: I’m David Cutler, professor of economics at Harvard.

Patashnik: I’m Eric Patashnik, professor of politics at UVA.

Riley: I don’t know much about your educational background and your professional development before you actually become associated with the [Bill and Hillary Rodham] Clintons. Tell us a little bit about your preparation for the job.

Cutler: It started when I was an undergraduate at Harvard in the mid-1980s. I started working for Larry Summers in my sophomore and junior year in college, and I enjoyed doing that.

Riley: This is when he was at the economics—

Cutler: He was in the economics department. A year or two after I started working for him, the [Michael] Dukakis campaign came around. It was 1988. By that point, I had gone down the road to MIT [Massachusetts Institute of Technology] for graduate work in economics. I was a bit like Larry—somewhat left of center, but liking to be in the economic policy end. I got involved through him in working on that campaign, helping him and some of the other folks do the economics. It turns out a lot of the people who were on the economic team in the Dukakis campaign also showed up in the Clinton campaign. Among the people I met there was Gene Sperling, whom I worked with quite a lot. One other person I knew from college was also involved there, Sylvia Mathews.

Riley: Sylvia had been involved in the Dukakis campaign?

Cutler: Sylvia had also been involved in the Dukakis campaign. Obviously that campaign wasn’t quite so successful, so everybody went their separate ways. I graduated from MIT in 1991 and took a position at Harvard.
Riley: What kind of work were you actually doing with Dukakis? You said you were basically supplying information to Summers, who was apparently a prominent fixture in the campaign.

Cutler: Yes. At one point he was identified as the chief economist of the campaign, although that campaign never actually ran very smoothly. I was a graduate student at the time, so most of it was factual stuff. For example, they would need something on how the economy was doing on a particular thing, depending upon what the issue was. I remember one particularly amusing thing where the senior George [Herbert Walker] Bush was talking about patriotism and how patriotic everybody was, and there was one fruitless weekend spent trying to figure out what share of the American flags in the U.S. were actually imported from other countries, so that we could make the point that we were patriotic, but we weren’t doing so well. I think we never actually found it, and periodically I exchange articles about flag imports with one of the people I worked with on that. It was that sort of activity.

Riley: Had your interests starting tracking in the direction of healthcare at this point?

Cutler: Yes, in graduate school they started tracking in that direction. I had no formal background in healthcare; I had never actually taken a course in healthcare. But it was actually partly through Larry Summers. We were talking about things in the public sector, and he would say, “You know, lots of governments are interested in healthcare. Maybe you should learn about it.” It was something that had always appealed to me, so I started getting into it that way. It’s a subject that economists had not dealt with very much, and those economists who had really had dealt with it in a very cursory fashion. So there was not a strong economic basis for analysis of healthcare issues, and that was something that I think turned out to be very important.

A lot of my own work then was really on public sector issues in healthcare. You can’t really divide out the public sector and the private sector quite so easily because they’re so integrated. And so through the Clinton time was a period where I was still learning a lot about it. Obviously, by the time I went there I thought I knew more, but it was something that I’d gotten really interested in in ’89 or ’90 or so. My dissertation was on that topic, and when I came to Harvard I was doing a lot of that. My broader background was in public sector issues with this sort of particular expertise.

Riley: And who were you working with at MIT?

Cutler: Still working with Larry Summers a bit. My main adviser at MIT was a fellow named Jim Paterba, who’s an economist there. I also worked some with Marty Feldstein, who was at Harvard then but long had interest in healthcare issues.

Riley: How did you manage to navigate into a field where there wasn’t a great deal of existing work? Is it easier to do work in that regard because you can invent things as you go along? Or are you finding that you have to be reliant on material that’s not being produced by economists, and that makes it somewhat more complicated to work in this area?

Cutler: It was actually very hard. The way I first learned about it was going around the country and speaking with health economists. Marty Feldstein sent me. He said, “I used to do this work 20 years ago, and I don’t do it now, and I’d like to find out what people think are the important topics. Here’s a little money, go talk to people.” So I went and I spoke with Henry Aaron down
at Brookings, and I spoke with Vic Fuchs out at Stanford, and I spoke with some folks in the Harvard area. I got a sense of what they thought were the important issues.

At the time, there was so little that economists knew about healthcare. The projects weren’t easy in the sense that they were simple, but even the most basic stuff wasn’t really known. For example, Medicare changed payment policies in the mid-1980s, moving from a basically retrospective—the hospital said what it cost and the government paid it—to what’s called a prospective basis, where the federal government says, “If you admit a person with this disease, we’re going to give you this amount of money. We don’t care what you do. This is the amount of money you’re going to get.”

No economists even knew the slightest bit about it or had thought about it. My dissertation was about that. So there were all sorts of very simple things that nobody knew anything about. But one of the counterparts was that economists tend to look at healthcare very differently from non-economists. They still do to some extent, although they’re converging a bit. As a result, at that time I wasn’t familiar with a lot of the thinking outside the economics community. That was something that I eventually learned, but it took a bit more time.

Nowadays it’s a lot easier. There are journals of health policy that one can read, and economics has a lot more subtlety towards what the issues are. I think a lot of it is because of people who have spent time in government—not just me, but other people you’ve probably spoken to—John Gruber and Mark McClellan, and people who now write about things and do it from a much more informed basis than the writings and teachings back then.

**Patashnik:** How much were you thinking about, or were other economists thinking about, prior U.S. health reform efforts? Did they have a good sense of the way in which the issue had been framed in the past and things that had been proposed and what had happened? Or were people tending to look at it just from a current standpoint and what the problems were from an economic perspective? Was it seen as political problem, as something that had been grappled with in the past?

**Cutler:** Very much so. Yes, it had been grappled with and the experience from [Franklin Delano] Roosevelt through [Harry S.] Truman and [John F.] Kennedy and [Jimmy] Carter and the [Ronald] Reagan years actually was there. For reasons I expect we’ll come to, everyone thought that this time was different, when of course it wasn’t. Also, the priorities in the government were different in that there was the enormous budget deficit, and there was a sense that the economy wasn’t moving. So there was less focus on this broad vision and more focus on how healthcare could contribute to the other goals.

**Riley:** There was actually an assumption built into Eric’s question—that reform was on people’s mind at the time. Is that a sound assumption? Or was it the case that people were paying attention to other things, the people you were talking about—the Henry Aarons and so forth? Or, to go back to the first point, was it the case that people could see that there were severe problems in the system and reform was something that had to be approached?

**Cutler:** There were two kinds of economists. There were healthcare specialists, and then there were general, non-healthcare specialists. The healthcare specialists had an acute sense of the
issues. Henry Aaron had been writing for years about issues of costs of medical care and insurance coverage. He’s just one example, but he’s the canonical person here. In fact, the healthcare economists—Henry and Vic Fuchs and people like that—were always much more skeptical about whether any reform effort would succeed because they knew more about the history of failed reforms.

The general economists were less aware of that. In government, you tend to get folks who are worried a lot about the budget, so they were worried about healthcare and its impact on the economy—for firms and so on. It was less the historical and more the current issues. Nobody in the Clinton administration thought this was a thing we should leave alone and not do anything about. But there was some internal tension about how much of the focus was on healthcare as a problem today because of its cost, and how much was a focus on healthcare as a long-standing social concern that we have to address in the context of making it a better society.

**Patashnik:** How much were people—Fuchs and people like that—focused on healthcare as distinguished from health, and the relationship between healthcare expenditure and health outcomes? Was that an important distinction in people’s minds, or were people so focused on things like implications of rising health spending for the budget that health outcomes were a more distant concern?

**Cutler:** That’s an interesting issue and one I’ve thought about over the years. You touch upon a part of the divorce between the economists and the non-economists I spoke about, which showed up a lot, unfortunately, in what the administration did, and it continues to show up: the distinction between health and healthcare financing. What most economists focused on was healthcare financing writ large—both government financing of healthcare, how much is the government spending, public programs—as well as private financing, like money spent by businesses and individuals. Most of the policy world was focused on healthcare financing. If you look at what the Clinton health reform plan was about, it was largely about healthcare financing.

I think most of the world cared about health and their receipt of healthcare, medical care, when they were sick. I tell all my classes there’s a difference between health insurance and medical care, and don’t ever forget that difference. I think that difference was not forgotten about, but it didn’t show up. So people would hear talk, and all they would hear talk about was dollars and cents and money, and really what they wanted to hear about was how is your access to your doctor going to improve? How is your interaction with the medical system going to get better? It was a conversation that was happening at different levels.

The interesting thing about a lot of the healthcare financing—even what one saw at the time, the early ’90s, and a lot of the background for the Clinton plan—was the sense that the single biggest thing we knew about healthcare was that there was an enormous amount of money wasted, that the financing system was just awful. To go back and put this in context, this was when people were writing articles about the Canadian healthcare system spending less and covering everybody and having lower administrative expenses. And people were writing about the German healthcare system and how well that was working. And there was the first set of convincing results about how some areas of the country spent a lot more on medical care than other areas of the country—maybe twice as much—without any discernable health impact. There
were studies coming out about how a lot of the receipt of care, when you look at particular conditions, was for things that were inappropriate or of no real value.

So you got the sense that the financing system was broken and we were wasting a lot of money. And that was a dominant theme at that the time—the sense that there were other models out there that were working a lot better. That was closer to health in the sense that people didn’t like wasting money, but it never really touched upon the issue of what is someone’s relationship with their doctor like, and what about that.

One of the interesting things about it, just over the course of the Clinton administration, was that the policy got to be much more successful, certainly much more popular, when it got into issues like “the government is going to help you make sure that you don’t get denied services” than when it touched upon issues like “the government is going to provide a lot of money so that some people can get health insurance.” I think that’s no accident, because it related to people not wanting to think about this as a monetary issue, but being told that that’s what this is about.

Riley: Your appointment at Harvard came at a point when your work was clearly tracking in the direction of focusing on health as an issue.

Cutler: Yes.

Riley: Was that unusual for that department?

Cutler: Yes and no. Marty Feldstein was hired as a health economist many years ago, although he hadn’t been doing health in a while. I still teach, and I list my fields as health economics and public economics. My formal training is in public economics, so I was hired as a public economist. Nonetheless, my department obviously knew what I was doing, and they were happy to have someone who knew about health because it was an important subject. But no department then, or even now, would have two people whose specialty was in health economics, whereas you could certainly have two people whose specialty was in public sector economics. At the time, it was just beginning to become accepted. There was a wave of people around the Marty Feldstein and Joe Newhouse era who did healthcare, and then it was a dormant field for about a decade or so. There was virtually nobody doing it.

Riley: What was driving the earlier generation? I confess ignorance. Was it Medicare/Medicaid?

Cutler: Yes, I think it was a lot of Medicare/Medicaid in the ’60s. These were people whose Ph.D.s were in the late ’60s-early ’70s. There was just starting to be interest in other countries’ healthcare systems. So you got people like Marty and Joe Newhouse and Vic Fuchs—who was probably a bit earlier—Stuart Altman, Henry Aaron, a lot of the more established researchers. Call them the old guard, although they do not have all the same views. Then there was a void of about 10 or 15 years, which really hurt economics, because then there was nobody in a very senior position who knew anything about this issue. Those people were driven by an interest in Medicare and Medicaid. Many of them had wandered over from political science. I’m not sure what Stuart Altman’s background is, but it’s at least as much outside of economics—in a good sense—as being inside, in the sense that he can speak different languages with different people.
Then my generation—of whom probably the most involved in public policy were John Gruber and Mark McClellan and I—really got involved because of the growing interest in the public sector, and because of the trends and the sprinkling of problems that were starting to show up in the private sector. That cascaded and got a lot more people involved after the Clinton plan and the next few years. I have no difficulty getting students involved now. Now there are a lot.

Riley: But it’s fascinating that you’re coming out of a period in which there isn’t a great deal of work being done on this, and I guess that’s historically important.

Cutler: Yes, and it has incredible consequences. For example, I come in to do healthcare, and at the time I’m 28, 29, 30 years old, something like that, not really established enough so that people are going to look at me very seriously. There are the Henry Aarons of the world, but the view—that I think is somewhat incorrect—is “Well, they had their time and it didn’t work, and we need a new direction.” Then there is nobody in the middle. So there’s this void which is, “Economists don’t have anything to contribute to this issue.”

Riley: Your appointment at Harvard was in what year?

Cutler: ’91.

Riley: And ’91 is also the year of the Pennsylvania race.

Cutler: Yes.

Riley: Does that have an effect on your public profile? Are you getting more inquiries from reporters at that point? Is this becoming a more prominent issue at that point?

Cutler: It is becoming a more prominent issue, and reporters are starting to get interested in the economics. One of the changes was that whereas the old issues really used to be about social equity, the reporters are starting to get more interested in the economics. So they do start to call more. It was more during the campaign that reporters figured out who I was.

Patashnik: I don’t know if it was ’91 or ’92, but I think Michael Weinstein was the major editorial writer for the New York Times.

Cutler: Yes.

Patashnik: And the New York Times decided to make a crusade, almost, out of the cause of managed competition. Weinstein was unusual because he was both a journalist and a Ph.D.-trained economist from MIT. A case can be made that along with the Pennsylvania election, those New York Times editorials very early in the process did a tremendous amount to create an elite consensus behind a reform plan. Do you know him? Did you have contact with him?

Cutler: I wasn’t involved in the New York Times decision to do that, but I knew Michael, and I spoke with him—not very regularly, but we spoke on occasion. I was encouraging of their doing that, and I would talk to him about what my thinking was on issues.

Patashnik: Had he taken classes with you, or had you overlapped?
Cutler: No, he was older. I don’t think we overlapped in graduate school at all.

Patashnik: But he may have worked with some of the same people?

Cutler: He was talking to a lot of those people. He was absorbing the economics view about things.

Riley: Were you paying much attention to what was going on in Pennsylvania?

Cutler: From an outside perspective, yes. I was not involved in any way.

Riley: In retrospect, were you surprised at the emergence of this as what seemed to be a core issue? Did it look to you to be a springboard for your own personal interest or your career at that point, that maybe you could take this and run with it if it’s going to become a hot public issue?

Cutler: I was pretty committed at the time, although it did certainly intensify my interest. But I was pretty sure at that time that that was what I really wanted to work on. Everybody knew after that that healthcare was going to be an issue in the Presidential election the next year. I think it heightened people’s sense that they needed to think about what to do about it and various kinds of reform things. At the time I was not so involved in the political economics of it. I was doing more economics work, so I wasn’t involved in developing any of the plans that were coming around then. But certainly in terms of getting familiar with them and talking among economists, there was a lot of discussion.

Riley: We you approached by any of the early Democratic candidates? My assumption is that you’d been involved in Dukakis. Were you approached by others who were interested in your views before Governor Clinton called?

Cutler: No. In fact, I think I got involved with Clinton probably not so much because of the healthcare. During the campaign I didn’t really work on healthcare very much at all.

Riley: Tell us how your involvement came about.

Cutler: I think it came about because Gene Sperling had started working for [Mario] Cuomo after the Dukakis era, and then he moved at some point in ’92 to the Clinton campaign. There was a point over the summer where they were getting geared up for the general election after the primaries, and Gene was recruiting people to be involved. That’s when I got involved in the campaign, along with one of my colleagues, Larry Katz, whom you’ve probably spoken to or will speak to.

Patashnik: You didn’t see this as a diversion from your academic career? At the time it seemed obvious that this was a good thing to do? There was no sense of Maybe I’m going to end up spending a lot of time on something that may not lead anywhere, and is this the direction I want to go in? Or was it a clear calling for you?

Cutler: At the time it seemed like a bad thing to do, and going to Washington seemed like a bad thing to do. I was pretty sure it was going to hurt my career, actually, but it was something that I wanted to do because I was interested in the issue and the person. I felt strongly about the kinds
of things he was talking about and about the need for policy change. So I was pretty sure it was actually not in my long-term interest to do. I think in the end it probably did turn out to be in my long-term interest, but I was pretty much certain that it was not.

**Patashnik:** Just because of the time and diversion of energy?

**Cutler:** Yes. During the campaign I didn’t do any research. Almost all of my non-teaching time was spent on campaign stuff. When I went to Washington, I got a year of leave, but I don’t think my tenure clock increased at all. In principle it was the same amount of time. So all of a sudden I came back from Washington, having been at Harvard two and a half years and not really having done much of anything. I was pretty sure that meant that I would not ever get promoted at Harvard. I think in the end the issues raised in Washington helped out, but at the time, I was more or less certain that it was not a good move.

**Riley:** Right. In part because there was a pretty good indication that this candidate was not going to win, even if you were coming on board during the summer after they had weathered the problems in New Hampshire—

**Patashnik:** Nobody tried to talk you out of this? No senior mentor said, “You’re killing your career. This is a fool’s errand. What are you doing?”

**Cutler:** I wasn’t that open about doing it.

**Patashnik:** Right.

**Cutler:** But by the time people knew, it was, “You can do what you want.” Nobody really tried to talk me out of it.

**Riley:** Tell us about your involvement in the campaign. You said you spent most of what free time you had working on it. Were you in Cambridge full time?

**Cutler:** I was in Cambridge. I first went down to Little Rock for things after the election, during the transition. There are two sorts of things—there are factual things and getting stuff right, and then there’s helping make policy. I was somewhere in between those two at the time. Some of the things were related to, *This argument has been put forward, what can we say about it?* And some of the things were related to, *Let’s help develop a position on this.* At the time “putting people first” was current, but there was fleshing out of that and what did that mean in various guises.

**Patashnik:** Who were you working most closely with at that stage?

**Cutler:** Gene Sperling, Sylvia, and my colleague Larry Katz and I were working. I would talk to Larry Summers about things, but he was not officially doing any campaign stuff because he was at the World Bank.

**Riley:** Were the contacts people were making primarily healthcare-related? Or was this on a round of issues about economics?
Cutler: This was actually general economics. One of the things about most campaigns—it’s still true today, unfortunately—is that there’s the economy and there’s healthcare. Those are two separate issues, and you have separate people working on them. So I would talk to Gene and Sylvia periodically about healthcare, but if I remember right, not even they were really that up on what was going on.

In the campaign, the chief healthcare person was Atul Gawande, who was relatively young at the time, and he didn’t have much of an economics background. He’s a terrific person, but he didn’t have much of an economics background. There was a big division between the economists and the healthcare folks. Some of that narrows now, so in some of the campaigns you see more of a crossing, but they’re still separate. At the time they were separate issues. There was the healthcare team, which was responsible for developing that. The economics team was responsible for economics policy.

Riley: And so you weren’t crossing over into the healthcare team.

Cutler: No, no.

Riley: So you were consulting with them mostly on general economics stuff. The focus during the course of the campaign was primarily on stimulus and middle class tax cut—those kinds of things. Did those get your green light?

Cutler: At the time there was a lot of discussion about the jobless recovery and the economy still doing poorly. It was clear that everybody thought we needed something on that. There was also the beginning of concern about the deficit, which got a lot worse as it got closer to the election and after taking office, when it was clear that things were much, much worse than anyone had perceived. There was always a difficult balancing act—the short run versus the long run. There was a lot of struggling with that, particularly during the campaign—and especially right after the campaign, which was an attempt to flesh out some of what came during the campaign.

I remember doing things about what would be the long-run job impacts of things like a reduction of the budget deficit. Because jobs were the certain key metric. How can we create more employment? I remember working on that and basically saying, “Okay, here’s what one can expect about the impact of budget deficit reductions.” I ultimately passed that along to other economists who were involved, and there was a very big economics meeting shortly after the election. I wasn’t there, but I was told that that was part of it—what would be the benefits of doing something like that.

Patashnik: In terms of benefits, do you mean long-term benefits for future economic growth or actually short-term benefits? Did your work show, or did you believe, that reducing the deficit would have tangible near-term positive economic impacts?

Cutler: The work showed that if you increase savings, you reduce the budget deficit so we save more as a society, so therefore we invest more in plant and equipment, new factories, and so on, and that that winds up being a stimulus for employment. Generally the work suggested that that would take a few years—three, four years—to get going and would plateau out at some point after that—maybe seven, eight, ten years. But then you’d have a pretty reasonable amount of job creation that came from that. That actually proved, if anything, too pessimistic. When deficit
reduction *did* happen right away, long-term interest rates fell very fast, much before one would have expected, and the investment stimulus and the job impact came much earlier. So it actually turned out to be the right analysis, but, if anything, far too conservative in terms of what actually happened.

**Patashnik:** When you’re doing research for a would-be President who has to make economic policy, how do you anticipate how other policy actors are going to respond? How is Mr. [Alan] Greenspan going to respond? How is Congress going to respond? Were you viewing this as “Let’s design the right policy for the country that the President will make”? Or were you saying, “Well, the President doesn’t have the capacity to do that, but if he does his part, other actors will respond in turn”? How much of that kind of analysis were you doing?

**Cutler:** There’s always a tension between those two and how you reconcile those. The easier one to think about is something like monetary policy, where you say, “Will the Fed be accommodating of it or not?” At the time, we were so far below potential output that it was pretty clear that anything that was stimulus was going to be fine—with the exception if there was a very big short-term spending spree where the Fed would get worried about inflation. But anything like that would be great. I didn’t talk to Greenspan personally, but many of the accounts say that at the time he was thinking the same way. I think most economists were thinking the same way. So it wasn’t a sense of me and Greenspan being in cahoots on something.

The Congressional part is always harder. I personally was not doing much of that, although it was clear that someone was thinking, *Okay, could this really be the centerpiece of a policy, and what would that mean?* That obviously came to be an enormously important issue in the first six months or so of the Clinton administration.

**Riley:** But at the point of the campaign, that’s somebody else’s responsibility. You’re basically there to give advice on economics.

**Cutler:** To give advice, yes.

**Riley:** And what you have testified to is that there is some concern at that point about the deficit, but it’s not the driving concern. The primary interest is in what the President called investments policy and jobs.

**Cutler:** If I remember it correctly, that was really the big issue—jobs and security of jobs, and investing in education and training, and figuring out how to get the labor force working again.

**Riley:** Did you go to the convention that year?

**Cutler:** No.

**Riley:** Does your role change at all when you get into the general election period—more intense activity? I guess in September you’re teaching classes again?

**Cutler:** It’s more intense. During the last few months there’s relatively little policy development taking place. It’s really just an issue of getting out there and responding to things. The Clinton campaign was very big on always responding to everything and always being out front. So there
was a lot of demand for anyone who could help out with that, figuring out how to say things, what things to say. There was quite a lot of that.

**Patashnik:** [H. Ross] Perot put out a lot of stuff on the deficit and how we can control spending—somewhat detailed, actually, for a campaign. Did you spend any time analyzing his proposals and coming up with responses? Or were you not worried at the level of details and countering them?

**Cutler:** I wasn’t at that time worried about countering them. I can’t remember whether other people were.

**Patashnik:** He talked a lot about healthcare spending being too high. He talked a lot about the deficit, living standards—many of those issues, actually.

**Cutler:** He did. I don’t know whether there was any formal response to the things that he put out. But the deficit was not the issue in the Clinton campaign that it was destined to become.

**Patashnik:** That’s true.

**Riley:** And that’s the great mystery for those of us on this side of the microphone, trying to account for this transformation and inattention in economic policy to a tremendous focus on the deficit, again, with the emphasis in the campaign being on investments and stimulus, jobs. Then at some point between, broadly speaking, the convention and the first three or four months of the administration, the decision is taken to focus an extraordinary degree of attention on the deficit. What’s your take on how this transpired?

**Cutler:** I think it’s partly people and partly news. The news part is that over the course of the later stages of the campaign—and particularly after the election—the new deficit numbers come out and they’re much, much worse. I can’t remember what it was, but it was stunning how bad things had gotten. Whatever hope there was of having money in the budget to do a lot of things upfront was gone, and there was a general sense that unless we brought the deficit under control, there was not going to be money for anything.

**Riley:** You say “general sense.” Did you have conversations with your colleagues on the campaign when this news breaks—“Oh my God, what are we going to do now?”

**Cutler:** Yes. Most of the bad news occurred after the election, in November, when the CBO [Congressional Budget Office] and the OMB [Office of Management and Budget] come out.

**Patashnik:** I want to parse that out: the deficit as an economic problem and a threat to future living standards and growth, versus the deficit as a threat to domestic activism and as a barrier to creating initiatives that Democrats—who, after all, had been out of power from the White House for many years—favored. What was the relationship between the two? Was there a sense that they were equally important—the economic problems and the political? Were they distinguished in people’s minds?

**Cutler:** It was both, actually. Different people thought about them differently, although I think everybody had both of them in mind. The more activist folks worried a lot about the deficit and
its constraint on what government could do. The private sector-oriented folks like the Bob Rubins worried about that and also about its impact on the private sector and savings and interest rates. The people part was an increasing concern of people like Rubin.

So you have the President’s healthcare speech in September when he introduced his healthcare plan. There are a couple of sentences like, “If we don’t get this healthcare under control, the only thing we are going to do as a government is show up, write healthcare checks, and leave.” I heard that lots of times. That was not rhetoric. He believed that. It was the sense that the deficit was constraining all the other things one would want to do, and healthcare was a big part of that. So for that reason among others, the healthcare has to be controlled.

**Patashnik:** Just to get a sense of how people were thinking, what options weren’t really on the table? Maybe it becomes an issue later on in healthcare, but leaving aside just the growth in healthcare expenditure, one could say that to the extent the deficit’s a problem and crowding out other things, the answer is to raise taxes, to raise revenue. You could eliminate the deficit and provide money for new initiatives. It is a Democratic President, after all; maybe we’ll have popular programs people will want to support.

Did people in the economic policy community at that time, even Democratic-oriented, view that as simply not an option that was going to be part of the mix, significant increases in revenue? Was that just off the table? Or did people believe that, if this administration goes well, perhaps there will be significant revenue increases?

**Cutler:** The ’93 budget act had some revenue increases.

**Patashnik:** Had a little bit, yes.

**Cutler:** At the high end.

**Patashnik:** Right, not broad-based.

**Cutler:** Not broad-based, but at the high end they were there. When the focus did shift more to the deficit, it became clear that one had to think about things like that. Of course, during the campaign there were the middle class tax cuts, so that was a very big reversal from that to ’93. I think the news is important here. During the campaign, the deficit didn’t seem to be so bad and so constraining. You could still put out a plan that had a lot of money for investment and things. It was only afterwards that there was just none of that there. That’s when you had to start to think about cutting the deficit. Tax increases at the very high end were okay, but in a recession and without job growth, it was hard to come up with a good rationale for a broad-based tax.

**Patashnik:** And when the deficit numbers came out, the economists—yourself, others who looked at them—did you believe them? Or was there any sense of, *These numbers may be subject to tremendous uncertainty. We don’t know if these forecasts are right. Maybe we shouldn’t paralyze ourselves because maybe this is too pessimistic?* What was people’s attitude about these forecasts, that they were trustworthy and reliable or perhaps—?

**Cutler:** That they were the best we had. There’s a strange thing in Washington—the numbers drive policy, whether the numbers are right or not. But whatever the numbers are, works.
whatever the CBO says about the thing is what happens. Nobody understands anything beyond what is the estimate.

You can say, “Well, there’s a lot of uncertainly, nobody really understands.” The only time people really pick up on that is with something like Social Security solvency over 50 years or 75 years. People understand that there’s a lot of uncertainty about 50 years or 75 years. But a decade or so, the uncertainty thing is harder. So they were seen as pretty credible.

Riley: I want to come back to this people point in talking about the transition from a focus on investments and spending to deficit. The news is something that you’ve told us about. Tell us more about the people and how that plays a part.

Cutler: This is more speculation because I wasn’t there. You get people like Bob Rubin, who now gets to be very important, Roger Altman—a lot of the economists. You know, after the election, there’s the economics transition team and it has a lot of people like that involved on it—Larry Summers, Allen Blinder—people, some more so than others, who are very concerned about deficits and the bond market response to what Clinton might do and whether that would be harmful. So partly what happens is that there’s a shift in who’s making the policy. A lot of the “Putting People First” is the Bob Reich wing. I think Bob wrote, or helped write, a substantial part of that. Then you get a lot of the more conservative, but more fiscally oriented—

Riley: This is during the post-election—?

Cutler: This is during the post-election transition period. I don’t think that during the later stages of the campaign there was very much of that.

Riley: Of this shift in focus. The numbers don’t emerge until sometime after the campaign, but I can’t remember. There may have even been a second set of numbers that came out in January that were even worse than the first set.

Cutler: That’s I think right.

Riley: Also, the other people would be Leon Panetta and Alice Rivlin.

Cutler: Yes, yes. I think some of those people were involved during the run-up to the campaign. But campaigns are so haphazard, and putting together policy in campaigns is so haphazard, that all Presidents reserve the right to change their mind after the election. I think Clinton did a fair amount of changing his mind, partly because different people got involved and also because the world changed.

Riley: When do you get contacted first about possibly coming on board?


Patashnik: New Year’s Day.

Cutler: New Year’s Day.
Riley: You had your television turned on to the Cotton Bowl and the phone rings?

Cutler: I think I got a call from Laura Tyson, actually. There was the economic summit—

Riley: Yes, tell us about that. You had gone to Little Rock for the economic summit. How did you get an invitation to that, Gene Sperling?

Cutler: I helped to put it together, a little bit. Gene mostly put it together, but I helped him with parts of it.

Riley: Tell us about that, which parts were you responsible for?

Cutler: I’m not even sure I remember. I’m thinking of some of the issues in terms of what topics and who should be the speakers. I don’t recall having an enormous amount, but a little bit to do with it. Gene said, “Why don’t you come on down?” So I was down there for that. I had met Clinton once before, but it was the first time I had seen him for more than a couple of seconds.

Riley: In action, up close. What was your impression of that event as a professional economist?

Cutler: I thought Clinton was amazing, and I still think his grasp of economics is amazing. I don’t consider myself someone who worked with him enough to know him personally. I was in a number of meetings with him, but never one-on-one. But his economics prowess is really just phenomenal. That was probably the first time I had seen it, the ability to go from issue to issue and to know some of the fundamental economic stuff.

Riley: So he had a sound understanding, was a synthesizer of information?

Cutler: I knew what was in the briefing books because I’d help to write it, and I had a copy of it there. The kinds of things he was saying were well beyond what was in there. It was clear that he was up on this.

Riley: At this point you’re still an economics person rather than a healthcare person?

Cutler: Yes. So on New Year’s Day I got a call from Laura Tyson saying that she and Bob Rubin were hoping that I would come work for them jointly, that they thought it was important to have one person in common among the two staffs to make sure that things worked smoothly between the CEA [Council of Economic Advisors] and the NEC [National Economic Council], and they wanted an economist who would do healthcare. They asked me to come and do that.

Riley: At this point had the profile of healthcare risen within the transition so that it appeared that it was going to be a significant aspect of the administration’s portfolio?

Cutler: Yes, I believe it had. Very shortly after that, there was a fateful meeting on healthcare in Little Rock that was the healthcare equivalent of the budget, the economic meeting the week earlier, where it was very clear then that it was going to be one of the major issues.

Riley: Were you at that meeting?
**Cutler:** Yes.

**Riley:** Tell us about that meeting, how it came about, who was there and—

**Cutler:** There was a meeting in Washington the night before, and then there was one in Little Rock the next day. It would be January 8th or 9th. It’s with the President. The First Lady is there. She sat in the back of the room, quiet. I don’t think she said anything. He had maybe decided at that point she was going to lead the healthcare task force—

**Riley:** It hadn’t been announced yet.

**Cutler:** That was not announced to anybody. Ira Magaziner was there, and I don’t think he said a thing either.

**Riley:** Did you know Ira?

**Cutler:** I knew who he was, but those days were the first days I had met him. The presentations were done by the healthcare transition team. I don’t remember the exact order of everything. Maybe Judy Feder was the head of it. It was Judy Feder, Ken Thorpe, maybe Sarah Rosenbaum.

**Riley:** Chris Jennings?

**Cutler:** I don’t remember Chris being there. Bob Rubin came for that because the links between healthcare and the economic stuff were clear at that point.

**Riley:** This is taking place in the transition office?

**Cutler:** No, this is in the Governor’s house.

**Riley:** But you said it was in Washington?

**Cutler:** There was a Washington thing in the transition, and then everybody flew down. They were pretty much the same participants the next day.

**Riley:** There was a dry run before it goes to the Clintons.

**Cutler:** Yes. Then there’s a presentation of the transition team’s stuff the next day in Little Rock. I had never seen the transition team’s stuff. If I remember right, the meeting did not go very well. The cost estimates were higher than the President had been expecting. He was very concerned about why the costs had gone up. I think during the campaign he had spoken about managed competition, but I don’t think that plan had very much of that.

**Riley:** This actually comports with some things that we were talking about earlier before you came in. Jacob Hacker’s account indicates that the transition effort had led in a direction that the President wasn’t very comfortable with.

**Cutler:** Yes, it was very clear at that meeting that he wasn’t very happy. I don’t remember the timing about when he had decided he wanted Ira to be in charge of running things along with Hillary.
Riley: The meeting you were talking about, where Ira and Hillary just sat on the wall—that was in Little Rock, that wasn’t in Washington?

Cutler: Ira was there in Washington. Mrs. Clinton was not. She was there in Little Rock. Ira was there in Little Rock.

Riley: So Ira was silent in both meetings.

Cutler: He was pretty silent in both meetings. I remember later on wondering why he was so silent, or whether he knew something about it.

Patashnik: There were some meetings on healthcare around the same time in Princeton, separate from the transition, with Paul Starr and some of the others. Were you involved with those meetings?

Cutler: No. That was a separate track. There was that whole managed competition group with Paul Starr and Walter Zelman, and Ira must have been part of that.

Patashnik: I think there were some administration people who did have some contact with that group, but it was distinct.

Cutler: Yes.

Riley: I want to dial back a minute to the original conversation you had with Laura Tyson about your appointment. She said they felt there would be some desirability in having a shared staff person, and that a major part of your portfolio would be healthcare, right? Was there further discussion about what the expectations were about your job more generally? Lines of reporting? Were you expected to report equally to both of these people?

Cutler: I think I understood that, but I don’t recall it being spoken about specifically.

Riley: Had you weighed in at all on the notion of developing a national economic council? Is this something that you’d paid any attention to earlier?

Cutler: No, I’d followed it, but I had not participated in it.

Riley: Was it something that you had any reservations about?

Cutler: All economists had reservations about whether it would marginalize the CEA. I think, once one got into government and saw how difficult the policy process is—and certainly the failures of the Bush Senior administration in terms of ability to produce any coherent policy—it was clear what the rationale was. But most academics are not farsighted enough to think about how you actually go about getting a bunch of things together. So it wasn’t quite clear what the rationale was, although about two days after going to Washington, one is clear about what the rationale was.

It turned out—fortunately, for the greater good of the world—that the CEA and the NEC got along, particularly during the first year, extremely well. So there was essentially nothing really to
liaison, because Bob and Laura and various people who worked with them basically got along extremely well. They didn’t need anyone to go back and forth.

**Patashnik:** Had you known Laura before she contacted you?

**Cutler:** No, actually. Maybe I’d met her in Little Rock at the economic summit, but I didn’t know her very well. I knew of her work, but I did not know her well.

**Patashnik:** There was some controversy about her selection in that she was not entirely a mainstream, or even a neo-liberal, economist. She wasn’t a Harvard-type economist.

**Cutler:** Correct. She was seen as more lefty than a typical economist and there was some concern. A lot of my economic friends had been rooting for Larry Summers to be the CEA chair, but because of the World Bank stuff and the memo on pollution things, that didn’t happen. Lots of people wrote nasty things about Laura and about how terrible she would be. She turned out to be totally spectacular, and they were all entirely wrong.

**Patashnik:** At the time, you didn’t have any concerns about direction, professional direction, whether you’d have any strain or whether there would be tension between the kinds of concerns you brought to your analysis and where she might want to go? This wasn’t a worry for you?

**Cutler:** No, it wasn’t particularly. I figured she was an economist, she sounded like she really was concerned about the issues. The other people involved were good, bright people. Allen Blinder was involved. I wasn’t particularly worried about it.

**Riley:** Did you accept it at the time of the call?

**Cutler:** Yes, or the next day or something like that.

**Riley:** What about Rubin? Had you known Rubin before?

**Cutler:** No, I had spoken to him once or twice about things, but no, I really didn’t know much about him, other than that people liked him a lot.

**Riley:** You didn’t have any concerns about serving two masters at that point?

**Cutler:** No.

**Patashnik:** Was it clear where you were going to sit physically and where you were going to be housed?

**Cutler:** I’m not sure I was smart enough to ask at the time, but no.

**Patashnik:** You’d be inside the beltway someplace.

**Cutler:** Things would work themselves out.

**Riley:** Exactly.
**Cutler:** I was somewhat naïve about it at the time, never having been in government. One learns something the first time, having been there.

**Riley:** Did you have any other meetings with the President or the economic team during the course of the transition period? You talked about the Washington meeting and then you went down to Little Rock.

**Cutler:** I believe a day or two before the election, in Blair House, across the street from the White House, there was another meeting on healthcare things.

**Riley:** So by this point you’re beginning to track more heavily into healthcare than anything else. Was that by design? Did Laura Tyson say, “These are meetings that I think you need to be at”?

**Cutler:** It was actually more Bob at that point. Bob is now getting quite interested in the healthcare stuff, partly because of the economic implications, partly because it has to dovetail with what’s happening in the economic things. There may have been more, but those are the only ones I remember.

**Riley:** When did you physically relocate to Washington?

**Cutler:** On the 20th or 21st.

**Riley:** Tell us about the earliest couple of days getting set up, what your time was occupied with, how you were figuring out how to navigate between these two different communities that you were supposed to be serving. My assumption is that you were physically located in a suite with the Council.

**Cutler:** Yes, I was with the Council of Economic Advisors. That was where my physical office was just because that was the only space. Although, since I came in during the middle of the year, there wasn’t much space anywhere. Everybody was pretty cramped. There was a person, a woman named Sherry Glied, who had been at the CEA the year before. Normally the CEA terms are from summer to summer, the academic year. She had started in the previous summer in the Bush administration. The professional staff stays over. She had been handling the healthcare issue for the Bush administration, at least the economic stuff. Sherry got me up to speed and introduced me to the other folks around the administration, in OMB, people I needed to know.

Then there was a bit of trying to figure out what was going on. Ira Magaziner had written a very lengthy memo about healthcare issues that needed to be addressed. The plan at that point was still to do stuff in 100 days. The first meeting happens about January 25th.

**Riley:** Is Ira’s portfolio revealed at the same time as the First Lady’s leadership?
Cutler: Yes, and that’s when it becomes clear. Actually, I think Ira had told me a bit before the election that Mrs. Clinton was going to lead the effort. Maybe I knew he was going to as well. That gets revealed publicly on the 25th.

Patashnik: Many of the details, I’m sure, were still vague, not filled in. But was it clear at this early point that it was going to be a large reform and that incremental reforms were ruled out essentially? Or was that still on the menu of possible tacks the administration might take?

Cutler: I think they’d been ruled out. It was basically a sense that we needed a comprehensive reform.

Patashnik: And among just economists, leaving aside the incremental reform, that was something that wasn’t debated or a matter of planning, planning being difficult in any large endeavor.

Cutler: I would say among the economists everybody knew that ultimately the reform had to be big, had to be serious. Later on, the view of a lot of the economists was that one should start slower and phase it in, rather than doing the big bang approach. And that was a big difference between the economists and the non-economists on this.

Riley: You said that the President had been unhappy with the results that were presented to him from the transition. Do you have a sense about how things tracked from that meeting into the early stages of the administration? I mean, if you have a formal organization set up to provide you advice and then you’re unhappy with that, some changes have to be made. My sense is that part of that may have been personnel. There were some people who were involved in that effort who weren’t invited into the inner circle to lead the effort once the administration comes in. Can you confirm that?

Cutler: I believe that’s true. Judy Feder was part of the administration but off in HHS [Health and Human Services] and didn’t have the kind of role I suspect she would have wanted. The same, I think, with Ken Thorpe and the other members of the transition team.

Riley: What about the ideas? How do you move from a point at which you have this set of ideas that you set aside? Were there standing in the wing another set of ideas with a certain set of advocates that immediately got latched onto? Or is it the case that what happens is you turn the issue over to a set of people and say, “Work on this and bring me something else that I can live with”? Is that basically what the Hillary operation was?

Cutler: If I remember correctly, the President at some point—actually fairly late in the campaign—had given a speech about managed competition and his support for it. So this may be the one example where policy does change in the late stages of the campaign. I think there were two tracks, the track of the folks who were ultimately in charge of the transition team, and then there was the Paul Starr and Walter Zelman and Ira Magaziner approach of managed competition.

I don’t recall enough to know whether what happened was the President said, “Gee, I kind of thought we could have done better with the managed competition thing,” or whether he was just unhappy. But by the time it was set up and Mrs. Clinton was in charge and Ira was running it, it
was clear that that was the way it was going, that that’s what the President had said he wanted, and that’s what the development was oriented towards.

**Riley:** What other kinds of broad understandings did you and the others in the health reform effort have of Presidential commitments? In other words, you knew that effectively you’d been charged to go create a plan, and the President obviously had some things on his mind that he wanted this plan to do. What were those Presidential preferences that you were trying to work with as you were beginning this enterprise?

**Cutler:** Universal insurance coverage—he was very clear about that at all times. Cost controls, both in the near term and over time, both in the private sector and in the public sector. I think he saw costs in general as bad. He thought, *Other countries are doing it better than we are. They’re covering everybody and at lower cost and people like it.* Those were the two overarching goals.

**Riley:** If we could get a chronology. We’ve discovered over a long history of doing these things that memory of sequencing is one of the first things that goes. You eventually get dispatched primarily to the healthcare task force, is that correct?

**Cutler:** Yes.

**Riley:** How long is the window between your arrival in Washington and the point at which you become pretty much permanently attached to the healthcare process?

**Cutler:** Probably about a week.

**Riley:** So you really didn’t have a chance to get any other kind of working relationships established within the organization, and you’re told fairly early. Who makes that designation?

**Cutler:** Both Bob and Laura. They both knew that they needed someone. The other thing is that early on, an enormous amount of their time is consumed by producing the economic recovery plan. So at the CEA it was only Laura and Allen Binder then, and they were both going to these economic meetings, and those were very lengthy, and they were continuous.

So before they even settled down and figured out who their staff was, they were doing that. Then, as the healthcare project grows, there were all these different groups, and they all needed economists. At one point I had half the CEA staff serving on various committees in healthcare. When Laura found out about it, she said, “Oh, wow, I guess that’s what my staff is doing.”

**Patashnik:** How much health content did the economic package have?

**Cutler:** Not very much.

**Patashnik:** So it didn’t do things that directly affected your planning for health?

**Cutler:** There was discussion at one point about whether it would have health stuff, and the decision was made that it either couldn’t or shouldn’t have very much health stuff in it. I wasn’t part of making it. There was an issue about how much of Medicare savings would be used for the economic plan and how much for healthcare stuff, and the healthcare people were always upset.
about the amount of Medicare savings that were being used for that as opposed to being used for healthcare stuff. But generally it didn’t have a great deal of it.

The other thing is that none of the economists who were doing the general economic plan had any real health background. Laura doesn’t have a lot, Bob doesn’t have a lot, Allen Blinder doesn’t have a lot, Roger Altman doesn’t have a lot. Lloyd Bentsen has some, but he probably wasn’t thinking about it that way. Leon Panetta has some from Congress. A big part of what I was doing in the first few weeks was just trying to catch people up to speed and explain to them what happens. So there were lengthy meetings with Bob, with Laura, with other people, just to say, “Here’s what people think about healthcare. Here’s what the issues are. Here’s what’s going on. Here’s what issues you’re going to be faced with.”

**Patashnik:** Was there any internal disagreement about any assessment or fact or priority at that stage? Or was it more you and others telling people, “These are the issues, these are the concerns”?

**Cutler:** There was no real disagreement at that point. There was a lot of discussion about what the difficult parts were going to be.

**Patashnik:** What were you most concerned about at that stage?

**Cutler:** That the project was just too big to be done well or done that quickly.

**Riley:** Can you walk us through the process of getting things set up, what your duties and responsibilities were, how things unfolded, the meeting structures and things of that nature?

**Cutler:** Almost immediately there was an effort to create the big enterprise, so there were various things about trying to figure out how to put in an economic role. Ira, who was in charge of doing that, had never really thought at all about including economists in it. I don’t think he thought it was good; I’m not sure whether he thought it was bad. There just wasn’t any real thought. It was Bob or Bo [W. Bowman] Cutter who suggested to him, “You need some economists.” So he said okay.

There was an effort to find staff and figure out what was going on. No one had ever worked with Ira, so nobody quite knew how he worked. I remember trying to say, “Okay, how exactly does one go about doing this?” Ultimately, things settled down a bit. Much more happened, actually, after the group of 500 disbanded than before. A lot of people have written about that time, which I think was only up to April or May. But an enormous amount of the development of the plan took place after that. There were really only six or eight or ten people who were working on it regularly at that point.

**Riley:** Okay, let’s divide it up into those two periods. Were you involved in the effort to recruit people to come into the group of 500?

**Cutler:** Not from outside, but I was getting the economists from the CEA involved. I was trying to figure out how to oversee, basically, all of what was going on from the economics angle: How can we learn what’s going on and talk to each other? Even a lot of the staff at the Council of Economic Advisors didn’t have a lot of experience with healthcare matters.
Patashnik: What were the tasks that you were looking at? Were you looking at trying to figure out how you could get from point A to point B? How much something would cost? Whether this specific reform option would achieve the goals of universal coverage and cost reduction and how much? I’m trying to understand what you were doing at that stage, what kinds of analytical tasks you were pursuing.

Cutler: Well, let me take a couple of examples. There was one group on long-term care. They were supposed to be developing options on how to deal with long-term care.

Riley: This was of the 500?

Cutler: Yes. There are various options ranging from the federal government should cover more of nursing homes, to we should cover more of home health, to the federal government should buy private insurance for people.

Patashnik: Were there actually memo papers looking at Option A will cost this much and get us this much?

Cutler: Yes. I was not doing that, but I remember speaking a lot to the person at the Council who was doing that. There was a lot of discussion back and forth about, “Okay, what do we think about this?” and “How ought we to approach this?” There were issues of benefits—what should be the standard benefit package? One issue that bedeviled us forever and ever was how you actually guarantee that everybody has coverage.

It’s particularly hard when you’re doing it through an employer-based system, because if you and your spouse are both working, which employer pays? If your spouse loses a job, do you then switch? Whose policy are the kids covered under? What if one person takes a week off? There’s just an endless amount of grief associated with that. And there’s an enormous amount of analytic work that has to be done: What are the economic effects of doing it in some ways? What are the costs of doing it in different ways? What are the strengths?

Patashnik: It was assumed that it was going to be an employer-based system?

Cutler: At various points that was reconsidered, but never that strongly. That was the presumption, and nothing ever came along that knocked that off as the leading thing.

Patashnik: So you would have these different subgroups looking at discrete issues, and they were coming up with analyses—option A is preferred, or B is second best. And the idea was to check off all these different subtasks? Or somehow to integrate them and make sure they all worked together?

Cutler: Ira’s goal—and I can’t tell whether he actually believed this would work, or whether it was just designed to stall for time (I’d be interested in knowing what he says now)—was that all these groups would develop options. Then you’d have a menu, and you could choose this one, this one, or this one. At some level, it’s very stupid in the working groups, because nobody knows how much money there is. And of course if you’re designing a benefits package, you want to include this, and if you’re doing long-term care you want to do this. The more
extravagant thing is always better because it’s going to help more people and do more. But there’s no sense at that point of the tradeoffs.

At some point you have to develop those options. But the real issue is integrating things. My own sense is that rather than assembling it like a Chinese menu—where you choose one of these and one of these and one of these—it was actually much closer to a jigsaw puzzle. The problem is you can’t do a part of it here, and a part there, and then just say, “Okay, these two are going to come together.” Unless you have the right pieces there, they don’t fit. So I think ultimately that was not a fruitful way to go about it.

**Patashnik:** This may be a little bit ahead of the story, but at that time were people looking at it as a puzzle to be put together as against something that in the end, inevitably, Congress is going to put together as its own puzzle? There’s no way to guarantee as the thing shepherds through the process that any puzzle created by your staff is going to stay as a unified whole.

**Cutler:** That’s actually an interesting question, and it’s a mixed question. There was an enormous sense—that all my outside friends kept telling me was wrong (and they proved right)—that something was going to happen. This time it was clear, absolutely clear, that something was going to happen. As I said, the Henry Aarons of the world kept saying to me, “You’re nuts.” Therefore, what the administration proposed was going to be quite consequential—that was one sense.

But there were debates at various points. The more Congressionally oriented folks—particularly in the Treasury Department who had worked with Bentsen—always thought that we should put out a white paper instead of legislation. There were a number of discussions about “Are you sure we shouldn’t do a white paper rather than legislation?” At some point the decision was reached, “No, we have to put out actual legislation.”

**Patashnik:** Because why? If we don’t, what happens?

**Cutler:** I was not party to that decision, but I think it was to impress upon Congress and people the seriousness with which the issue was treated. Here’s the President putting forward his plan. Here it was. You could work with it.

The other sense in which this came to be very consequential—and this did show up in meetings I attended—was that something was going to happen. So the question was, what strategy do you use? If your sense is you’re not sure, what you want is a plan that gets to Congress and is not dead on arrival. But if your sense is something is going to happen, you say, “Okay, where do I want to wind up?” It was very clear—I don’t know what the President’s exact thinking was, but people would argue in meetings, “In order to get as much of what we want as we can, we’ve got to start on the left, start where our strongest supporters are and where the Democratic base is, and then bargain from there. But don’t start in the middle. You’ll just lose from there.”

That guided the direction towards producing a bigger, more expensive, more complex—

**Patashnik:** Even though—if you look at a number of the groups—this was not necessarily the plan they would propose. If you look at where the real energy and activism is, for example, in the AARP [American Association of Retired Persons], managed competition within the budget was
not what was going to excite them, and there wasn’t a consideration, *Well, maybe we should start there, and we’ll end up where we want to end up.* At that early drafting stage, how much awareness was there of where your allies were?

**Cutler:** There was discussion of that. Much of this discussion was only among Ira, Mrs. Clinton, and the President. I saw some of the discussion, but I’m sure that there was an enormous amount there that I don’t know about, so let me preface that. But when that issue would come up, Ira would say something like, “Yes, I’ve spoken to the unions, and it’s not their most preferred, but they’re happy with it provided they get the following couple of things. And those things are in there, so they’re going to be happy and go along, and they’re going to be strong supporters and then we can do this.”

Or, “This interest group will like this thing, so they’re going to go along. We’ve got enough stuff in there so that all of our traditional interest groups will like it, and there will be the base of support there, even though it’s not the most preferred of any of them. So that will give us the momentum that we need.”

**Patashnik:** How much of it at that time was large corporations? Was big business seen as a key constituency that would be essential?

**Cutler:** They were a big constituency—the fact that they had this overhanging retiree issue, which was basically bought out, the fact that they were paying for dual coverage for a lot of their workers because their policies were more generous. They were one of the key constituencies.

**Riley:** You said in meetings people would make the argument, “We ought to lean left in order to get a program that probably will be compromised.” You’re saying that that argument tended to prevail within the administration?

**Cutler:** Yes.

**Riley:** Tell us about Magaziner and his operating style. We read press accounts of it, but I would be curious about your own sense about why he was brought in to do this, and the strengths and weaknesses of his presence in this enterprise.

**Cutler:** I think he was brought in to do it because, as a management consultant, he would bring a different perspective on the issue.

**Riley:** He’s not somebody who knew much about healthcare?

**Cutler:** He’s not somebody who knew much about healthcare. Although, he’s very bright, so he learned a lot. But he didn’t have first-hand healthcare experience. To some extent, if you go back to what a lot of the driving issues were—there was a lot of waste, the system works poorly, we can do better—a lot of those sound like what you hire a management consultant for. So there was a sense that rather than the old-guard policy that had failed, it was that we ought to get this new way of thinking and really think of this as, “I want fresh ideas and bright ideas.” So that’s where he came in.
Throughout, he didn’t have a lot of sympathy for any of the old-line folks. I think he didn’t care what economists like Henry Aaron thought about things, people like Stuart Altman. Those were people who had had their chance, they failed. “I don’t want to hear about how hard it is.”

**Patashnik:** What was the line that was accepted of why they had failed? They had failed because they were too small-thinking? They didn’t have vision? There must have been some implicit understanding of why the people before us had not been able to succeed and how we’re different.

**Cutler:** That’s a good question. I’m not quite sure I know exactly the answer to that. Partly it was that they didn’t think broadly enough, partly nowadays they’re too skeptical of what can be done. Then, I suppose, they demonstrated that they weren’t capable of doing it. But I don’t really know the underlying basis for it.

**Patashnik:** I don’t want to press this too much, because probably people in policy don’t spend much time thinking about the past. But I’m wondering if the people had any awareness of and talked about two things. One would be, how was Medicare shaped? That was the last big thing. You have a Presidential plan, a trend to support it after the ’64 election. But then it gets changed dramatically in Congress and emerges in a way people didn’t expect. That would be the one thing, related to health.

But then the other—did anyone at the CEA or other places around government, think about the last Democratic President, Carter, who also tried some ambitious things—energy policy reform—that was more recent than Henry Aaron back in the Great Society? This was, after all, the last Democratic administration. Was that in people’s heads? How we’re different from Carter?

**Cutler:** Widely seen as an incompetent administration.

**Patashnik:** But a reformist administration, an administration that wanted to tackle difficult policy problems comprehensively. Energy was one of their main ones.

**Cutler:** You know what actually did stick in people’s mind was the catastrophic Medicare legislation, ’88 to ’89. And the lesson that people took from that was that you cannot charge people a lot for something before they’ve gotten any benefits. That was very clear. Under no circumstances were people going to pay before they got something.

I think people thought that the time had crested, with the [Harris] Wofford election. So I think there was the sense that we’re different from the past.

**Riley:** I want you to continue on Magaziner. You were telling us a bit about his operating style.

**Cutler:** His operating style seemed to be—when one investigated in the private sector—that he did an enormous amount of legwork—spent hours and hours, a great deal of time—and then, a bit like a midterm, the night before, he pulled it all together. That was the way he did this too. There was just “stuff” happening all over the place, and occasionally you were trying to pull it together—or you thought you were pulling it together.

**Riley:** What was the stuff happening all over the place? Was it fairly carefully managed?
Cutler: No.

Riley: So there were an awful lot of these groups set up and then they—

Cutler: No, in fact, most people got pissed off because they were groups that nobody seemed to care what happened. I’m not giving away great state secrets to say in the end it was about as bad a process as has ever been invented for anything. I don’t know whether the goal was to stall—

Riley: You mentioned that earlier.

Patashnik: What would have been the logic there? Why do you think that might have been his goal?

Cutler: He was supposed to come out with a plan.

Riley: Within a hundred days?

Cutler: Initially it was within a hundred days, although it became clear that that was going to be delayed by the economics plan. So then the question was, what do you do? Developing options is always a thing that one can do to stall. In addition, it had the advantage that in principle members of Congress and their staffs would feel like they were part of the process. Now, in the end I think it alienated them because they thought they were brought in to be part of something that nobody cared about, and it was just a big waste of time.

Riley: Because the groups were meeting and developing ideas, but there was no coherent end to it?

Cutler: No coherence, no strategy for what to do and—

Riley: This is also a bit of a puzzle about the entire healthcare enterprise, because there is a retrospective perception, an armchair analysis, that this was a very closed process, right? You’ve just told us that there were 500 people brought in from everywhere. It seems to me to be a very permeable process. How does that kind of permeable process get the reputation of being a closed process?

Cutler: One of the things that the NEC learned, that I saw there, is that when people feel that they have real involvement, they can actually accept the outcome. What people hate is when they don’t feel that they have real involvement—either someone doesn’t care what their view is, or they don’t get to make their case. But if someone made a case and lost—the President, or whoever, heard it, they made a case and they lost, but it was treated seriously—they can accept that much easier.

Riley: So it’s the case that they’ve been invited to come in and invest their energy and time in something, but was there ever an intention to deal seriously with the results of these—were they called working groups? Or was it simply a process that was by design completely unmanageable, and therefore you couldn’t take 25 or 30 groups that were acting as insular agencies and make anything rational out of them?
Cutler: I don’t know for sure. I’ve thought about it over the years. As I say, I think partly it might have been just to make people feel involved, in which case it backfired. In principle, it’s nice to have the options out there. The process worked better when you had a smaller group of people and it was clear that you actually cared about their opinions. Whereas I think here, certainly Ira—I don’t know about Mrs. Clinton or the President—knew what they wanted. And that’s fine, they should have then just designed what they wanted and sought input as they needed it, and didn’t have input as they didn’t. But (I won’t say whether it was on purpose or not) people felt that they were invited to be part, but nobody actually cared what they thought.

It was certainly the case during the development of this that the economists felt that what they had to say just wasn’t valued. I would talk to Laura and Bob, and on several occasions they would try to talk to either Ira or Mrs. Clinton or the President, but they just got nowhere. Most of them concluded, okay, fine, their involvement wasn’t really wanted here.

Patashnik: What was the message they were trying to deliver?

Cutler: Sometimes it was, “You should think about going slower.” Sometimes it was, “This is a little bit out of control.”

Patashnik: Did Tyson and Rubin agree with this assessment?

Cutler: Yes, not disagreeing with the long-term goals, but over how one ought to get there, or what sorts of things ought to be part of it, or was it too optimistic to rely on this, or something like that.

Riley: I can see, at least theoretically, how one might set up an organization like this that would function, which is, I’ve got ten general policy goals that I want to achieve within the general realm of healthcare. Let me divide an organization up into ten groups, and as long as I end up where I want to end up, generally, help give me specific advice, by virtue of your expertise as to how we could do this. I guess that’s the way things were set up, but what I’m hearing is that the groups were set up, maybe with the idea that part of their responsibility was to help establish goals that had already been decided on at some other level, and therefore their work product was wasted. “Well, thanks for spending six weeks, 18-hour-days on this, but clearly this isn’t exactly what we want, and so I think we’ll just go with what we decided earlier.”

Cutler: That’s a little bit blunt, but I think that was some of that spirit that people had. The decisions were whatever they were, and that was more or less independent of what work went on. That was during the phase of 500 people. There was a more serious effort after that was disbanded, trying to pull things really together. And that, in principle, could have been done in a more coherent way, because you’re really down to about ten or fifteen people. That is a manageable number of people to actually do something.

Riley: And these are senior White House people?

Cutler: There are some senior White House people, and there are some people from the agency. Ira was in charge of it. Within the White House, there was Paul Starr, Walter Zelman—

Riley: Now what role did Paul Starr have?
Cutler: Paul was just kind of—I’m not even sure he was officially on leave from Princeton, he may have been.

Riley: Did he have an appointment?

Cutler: I don’t know for sure.

Riley: But he was clearly involved in the process.

Cutler: He was clearly, clearly involved. He was there. At some point, he got fed up and mostly went back to Princeton with some time in Washington.

Riley: Who else?

Cutler: Walter Zelman from California was there, Larry Levitt, Gary Claxton. I think they both may have had official appointments in HHS by this time, but they were brought in as outsiders and then stayed. There was me, Ken Thorpe, Judy Feder.

Riley: Was Chris Jennings involved at this stage?

Cutler: I think Chris was involved at this stage. I don’t quite remember for sure. Atul Gawande had left by this point. I think he decided this was just not working, and so he went back to medical school. There must have been, Nancy-Ann Min DeParle from OMB and Len Nichols, who was also at OMB.

Oh, there are some treasury folks too—Marina Weiss from Treasury and Randy Hardock from Treasury, and then some of the professional estimation staff from Treasury. And the actuaries are floating around, because they have to estimate all this stuff. That’s as much of the group as I remember.

Riley: At this point are you starting over? You have 10,000 pages of reports that you’re charged with assimilating?

Cutler: Yes, which never get pulled down off the shelves. So it’s more or less starting over. It’s deceptively simple and hard and technically—

At one level it’s very simple. Here’s what the plan is. You need to say what people are going to get. So there’s some benefit package. You need to say how they’re going to get it. So they’re going to get it—their employer is going to pay and there’s some health alliance. You need to specify how you’re going to pay for it. So there’s some savings in Medicare and Medicaid; there’s a new cigarette tax. That’s it. Then there’s the administrative apparatus. At that level, it’s easy. You just say “Here’s what you’re going to get. Here’s what it’s going to cost. Here’s how we’re going to pay for it. Presto!”

Once you actually try to translate that, it becomes enormously difficult. Just take something like—there are going to be these regional health alliances. Who’s going to be in them? Small firms. What’s the definition of a small firm? Do we know anything about the distribution of
employment by firm size? Suppose you work at a big firm, and your wife works at a small firm. Where do you get insurance?

There are subsidies for firms, so they can afford to spend it. Well, is the subsidy based on characteristics of the firm or characteristics of the workers? That is, does it apply to each worker, to the firm as a whole, or what? The more generous you make it, the less you can afford. So, actually doing it is extremely complicated.

There was an enormous amount of energy spent just figuring out how you could do it, what it would mean to actually put together something like this, and what you’d need to put it all together. That’s something that a small group could do. And a small group did ultimately put together something. I don’t think it made an enormous amount of sense, but there was something there.

**Riley:** Do you remember at what point the small group begins to meet?

**Cutler:** Probably about May.

**Riley:** Is the small group a Magaziner creation?

**Cutler:** I think it’s pretty much the only people left after the group of 500 gets disbanded. It’s the permanent folks in government who are around working on it. Then, at various points there are attempts to make decisions among the broader group. I remember a couple of times we’d have meetings with the President, and people would come in and debate different sorts of issues. Invariably the results of those meetings were leaked, and they would get shut off. So you’d have one meeting out of a scheduled four. It would show up in the next day’s *Washington Post*, and so the other three would be canceled. I think what ultimately happened was most of the decisions were made probably by Ira and Mrs. Clinton and the President, somewhere where nobody saw it.

**Riley:** Leaking was being done by the losing party in the meeting?

**Cutler:** I don’t know.

**Patashnik:** These were what kinds of decisions? Things like the nature of the benefit package or—?

**Cutler:** The nature of the benefit package, how to phase it in, the different financing options.

**Patashnik:** In this smaller group, was the political analysis just implicit in what you’re looking at? Or was it separated out from, “Technically this will work best, but we don’t think we can do this politically”? How did politics get figured in here in your design of this plan?

**Cutler:** Mostly not very well. Actually, Bob Boorstin from communications was in on this, and he was doing some of the political stuff. I think Chris Jennings was there then, although probably Chris was not quite listened to either. I can’t remember when Chris came on board.

**Riley:** Nobody from Congressional Affairs?
Cutler: No. I think Congressional Affairs is busy with the economic plan and then with NAFTA [North American Free Trade Agreement]. I don’t think anybody from Congressional Affairs was there.

Riley: Is it correct to assume that within the upper reaches of the administration, there was a feeling that Mrs. Clinton’s own political sensibilities were enough to manage this operation? Is that where the political instincts were supposed to come from?

Cutler: I don’t know on the political end so much.

Riley: It’s an unfair question, because I suppose you couldn’t really know the answer, but I wonder if you had a feeling about whether—

Cutler: I know from the economics end, whenever the economists tried to integrate themselves into it, they got the sense they were not wanted. The question is whether that was a general sense among other folks, or whether the political folks thought that it was already covered. At various points, there was reaching out to some more political people. At one point Ira tried to enlist Lloyd Bentsen in helping sell the plan in the Senate—after being mad at him because he thought that Bentsen was going around the Senate telling people that it was out of control.

Riley: But that’s the sales job afterwards, and we’re still at the point of trying to get a package together, right?

Cutler: Correct

Patashnik: If the economists were somewhat marginalized, who wasn’t marginalized? Who was at the heart of this and clearly was or perceived to be the drivers?

Cutler: As we perceived it at the time, it really was Ira, Mrs. Clinton, and the President, in some combination that we couldn’t figure out.

Patashnik: But you were convinced that any important decision that was made, the President and the First Lady were probably making it.

Riley: David, why do you think they were resistant to getting the economists to weigh in? I’ve read some of your pieces, and some of what you have written here, some of these passages, strike me as being political red flags to people who were thinking clearly, or purely in electoral terms. Was that the problem? You guys refused to fudge over complexity, or you understood that there were costs that had to be covered in places that maybe they chose to ignore?

Cutler: Well, obviously I have a somewhat biased view on this, since I’m from the economics—

Riley: But it’s your interview. If we get the accumulation of all the biases, we may have a pretty good understanding of what things look like.

Cutler: I think there are a couple of things. The subject we were talking about a little while ago is that there weren’t a lot of economists out there whom people trusted for their expertise on this issue. There was this old guard who was perceived to be the “old guard” and not so helpful,
which I think was a mistaken view. But there was that. Then there was this missing generation of people, and then there were somewhat younger folks who, to be fair, hadn’t established much of a reputation for anything at that point.

So there was a sense that economics didn’t have a lot to offer. Plus, this was seen as a social issue, not an economic issue. So there was that part of it. Economists are generally more conservative than other folks—along the scale of Democrats, the economists in the administration were towards the more conservative end of that. Laura Tyson was seen as an exception, and so she probably had more influence than other economists because she was seen as more left-leaning. But people like Bob Rubin were seen as more to the right.

Then there was the sense that the economics package turned out to be about deficit reduction, and—

**Riley:** “We lost that battle; we’re not going to lose another one”? Or “We gave on the budget, so we’re not going to give—”

**Cutler:** But now is where we need to spend money and do things. I think, for a lot of reasons, for those reasons probably, but a bit more. Then the other sorts of things—at some point—one thing that was really silly—there were these debates about what would be the employment impact of healthcare because everybody was concerned about the employment impact. There were these fierce internal debates about what it would be kept to—hoping that the economists would say that it would create a lot of jobs.

Economics doesn’t really say that. It says mostly what happens is when health costs go up, employers lower wages of workers, and when health costs go down, they raise their wages. There’s not a lot of job creation, it just shows up in wages. So you couldn’t really say that slowing healthcare cost growth would create jobs. Then there was the mandate, and depending on what you do, you produce maybe a little bit of job loss from that—some job gains from getting people on welfare to go to work. But the economists were not willing to go out and say it would create a lot of jobs. And that produced a lot of frustration.

Of course, what the economists did say is, “We should talk about the benefits in higher incomes to people because if employers are not spending as much on healthcare, they’ll be paying more out to the workers, and workers’ real incomes will be higher.” But that wasn’t nearly as fulfilling. You come to loggerheads over things like that, and it soured the relationship somewhat. So at the end there was some mistrust, also because a lot of the opposition was coming on economic grounds. There are two ways you could interpret that. One is, “Okay, we need our economists in the fight with us.” And the other one is, “Economists are just inherently predisposed not to want to do big social programs. We’ve never seen them be in favor of any big social program, and so why should we—”

**Patashnik:** If we ignore them, maybe they’ll go away?

**Cutler:** Maybe they’ll go away.

**Riley:** One of the points I had flagged in some of your writings was the point that the core of the cost issue in the United States was over-utilization—
Cutler: Yes.

Riley: The technology exists. That strikes me as not being a particularly resonant argument with politicians. You wrote the certificate of need process didn’t work very well, largely because, for political reasons, it gets circumvented. Every little local hospital needs to have an MRI [Magnetic Resonance Imaging] and so forth.

Cutler: With some people that doesn’t go over well, although it’s hard to think now. Nowadays everybody accepts that. If you said at the time, “There’s a lot of stuff that happens that isn’t needed.” It wasn’t so much that. Politically—this wasn’t so much from the economists—what was very hard was whenever you say there’s overuse—“All this stuff happens that just shouldn’t happen”—everybody nods their head and agrees. Then you say, “We’re going to get rid of that.” Everybody says, “Good for you.” And then the other side says, “That’s right, they’re going to ration your healthcare.” Then all of a sudden people recoil in horror.

We tried to be on one side of the fence, and the opponents made it—or people thought—it was going to be on the other side of the fence, and that ultimately was part of the undoing. But that internally, actually, didn’t prove very controversial. The idea that there was enormous savings to be had was actually something that, if anything, the political folks liked more than the economists.

Riley: But that ultimately became a problem because there were debates over when those savings would take place, right? If I recall correctly, Magaziner was making the claim in some of the early economics meetings that, “Once the healthcare plan comes down the road, you’re going to have immediate savings in healthcare that will help out here.” And there were people like Altman who thought he was coming in from outer space on these claims.

Cutler: Yes, and certainly the timing and the magnitude of them were something—To be fair, nobody really had very good evidence on them.

Patashnik: Were you talking to anybody at this point, outside this group? How much were you talking to economists back at Harvard, other professional colleagues? Were you grappling with issues and looking for sounding boards outside, or were you really just focused on the group dynamic?

Cutler: I was doing a fair amount of outside discussions, and a lot of discussions with other economists in the administration who weren’t so intimately involved in this. From what they’d been reading, the outside economists were not incredibly happy. There are a few different flavors of them, but the more conservative ones were definitely not happy with anything. The more liberal ones were a bit appalled by the process—and they weren’t that impressed by what they read of the substance.

But that reflected a lot of things over the time, ranging from some people who said, “You’re never going to control healthcare costs, so don’t even try,” to people who—not so much economists, but others who were single-payer fans and were saying, “Why are you going through all this?” to people who support other kinds of reforms. One of the things about healthcare then—and even today—is 90% of people agree we ought to have reform, but no more than 20% of the people agree on what the reform ought to be.
**Patashnik:** How much of it did you feel that you wanted to, or just inevitably did, defend this? Did you develop an identity—a stake in this product that was emerging—that you wanted to explain to others? What was your feeling, and maybe your fellow economists’, toward this product? Was it your product?

**Cutler:** No. As best I could tell, nobody on the worker end of it felt like it was their product.

**Riley:** This is including the smaller group? We talked about the group of 500, and I understand the frustrations there. But ultimately, even in the smaller group of people convened by Magaziner, there was a sense that the final product there was not something that reflected a general consensus?

**Patashnik:** This is before the President makes his speech before Congress? That’s one of the big moments.

**Riley:** But he has a plan at that point.

**Cutler:** It becomes a great hope that Congress will make it be better. I don’t know what Ira’s view was, what Mrs. Clinton’s view was in terms of that product—but I don’t think anybody I know of felt a great deal of pride in that product.

**Riley:** Anytime you’re in something as complicated as developing a 1,342-page product, there are going to be compromises. But you’re suggesting that there was something more than the typical alienation of compromising and getting something done.

**Cutler:** Let me say something in a mean way, but then I’ll go back and try to take it back. The mean way is that it felt like a house of cards. But now to be fair, given the goals that were set, it had to be a house of cards.

If you say, “The goal is I want to cover everybody,” this means that you’re going to spend more. There’s going to be more utilization of healthcare services, because the whole reason to cover people is because you don’t think they’re getting enough care now. And the government’s going to spend more because it’s got to pay for a lot of those things. But you also have to contribute to deficit reduction, and you can’t raise any taxes. I’ve basically put you in a corner—I’ve said, “Find some heroic way of saving money, and then turn that into something useful here.”

Nobody has the slightest clue that you can save that amount of money. We know more or less you can save money in Medicare and whatever. A lot of these savings are coming from the private center. How? Well, there’s going to be more competition, that’s fine. Just to be sure, we’re going to put a cap on things, hold the lid on the boiling pot. And if the pot boils too much, we’re going to hold the lid on more. But you had to produce that, because that was what the sense was.

The big disconnect was between the sense that there’s a lot of waste and there’s a lot of potential savings out there, and any policy that could produce those savings. And that’s still true today. Nobody has a policy that they can reliably say, “This is going to produce all the savings in the waste that’s out there.”
So you wound up with something that had the feel of something that just didn’t work. It would either fail because you would hold the lid on too tight and you’d burn yourself, or it would fail because the lid would go flying off, and you would have blown a hole in everything. But that precarious balance, walking exactly on the edge, it just seemed too improbable.

**Patashnik:** I’m trying to get my mind on what the psychological mindset of the group would have been. You maybe alluded to it, this “house of cards.” But you’re not feeling like, *We’re playing a role in creating this for the President. This might collapse. It’s going to be bad for him.* It’s going to be bad for the administration. Rather it’s, *We’re creating this thing, but this is not the end of it. It will go to Congress, Congress will maybe make it better, will improve it. It’s going to be okay in the end. Even if we create this thing that’s not that sturdy, it will become more sturdy somehow.*

**Cutler:** At several points the economists do try to raise it with the President and with Mrs. Clinton and with Ira. I remember, myself, trying to raise it. I remember going to people, suggesting they try to raise it. I didn’t try to raise it with the President, obviously, but to other people. And I remember hearing back, “He just doesn’t want to discuss it.” Or, “She just doesn’t want to discuss it.” Or, “Ira just doesn’t want to discuss it.”

Then you say, “Okay, let’s at least do the best we can here because we owe that, to do the best we can” and hope it gets better. If you were like me, that’s what you were doing. And if you were like some of the other economists, they just said, “There are enough other things to worry about, so I’m going to go and deal with those and hope that it gets better.” The problem with that is, then, when Ira or the First Lady needed the economists to help out, either they weren’t willing, or they weren’t able, or they didn’t feel invested in it and so they didn’t feel like they could.

So there was some amount of Bob Rubin going to talk to groups of businesses about it, and me going to talk to them. They would ask you questions of the form, “Isn’t this a house of cards?” And it is very hard to know quite what you say because you haven’t been invested in it. The kinds of things that the economists would have pushed for are conditional things—if this doesn’t work, we’ll do this. But you can’t say, “We’ve thought about that and here’s the thing,” because that’s not there. So all you can say is, “It is believed it will work.”

Then what’s the evidence? To be fair, the world didn’t have that evidence, it was hopeful that it could do it. So it was very hard to sell it for that reason. As I said, I think it made sense mostly as a document for the left.

**Patashnik:** Even though this was not the plan the left would have designed—

**Cutler:** Even though this was not the plan the left would have designed. I think it made sense mostly for, “If we have to have something like this, here’s what”—

**Patashnik:** Because the goals were goals that the left wanted, universal coverage—

**Cutler:** And cost controls.
Riley: I can assume, based on what you’ve already said, that there was never any backtracking in the direction of the single-payer. The President having staked out managed competition as one of his ultimate goals, there was not internal debate thereafter that the only way this is going to work is if we do a single-payer.

Cutler: There was not formal debate about it. Almost by necessity, some of the plan moved that direction. For example, let’s take the issue of the health alliances. Why do you have health alliances? Well, you need them so that a) people have a place where they can actually go get insurance. If you tell them, “You have the right to insurance,” now you have to say where they can get it. And b) because you’re worried that insurance companies will say, “Fine, I’ll insure you for $20,000 a year because I know you’re sick. Eric, I’ll take for $2,000 a year, but Russell is $20,000 a year.” You have to have some sense there’s a place where there’s nondiscrimination.

So we’re going to set up this thing where we can guarantee there’s nondiscrimination. Then you say, “Who needs nondiscrimination?” All but the really biggest firms. So you wind up putting all of these small- and medium-sized firms in there. Those things look a little bit like a single-payer thing. It’s one place, it’s going to be very tightly constrained to prevent the insurance companies from doing X, Y, and Z. You stand back and say, “Okay, I understand, we’ve moved a bit of a way towards single-payer plan. I understand the sound reasons why we did that, but that’s what happened here.”

On the substance, it moved that way. I was never part of any discussion that was of the form, “Shouldn’t we just do a single-payer plan?”

Riley: You had mentioned earlier that you had been deeply impressed with President Clinton’s grasp of economics. Did you have that same level of confidence in the First Lady’s grasp of economics?

Cutler: I didn’t ever hear her so much on economics.

Riley: Was she a persistent presence in the meetings that you were attending with the smaller group?

Cutler: No, she usually didn’t attend those. She floated above that and dealt more with broader issues. There were a couple of meetings with her. I met with Ira for several hours a day, and I met with her maybe once a week. So I don’t have as strong a sense.

Riley: Her grasp of the healthcare economics you found to be sound?

Cutler: I thought it was generally sound. Her knowledge of the way healthcare actually works I thought was phenomenally good. She had been around to hospitals and nursing homes and talking with people. The President had, too, so they understood what healthcare meant to people.

Economically, she was clearly less concerned about the budgetary things than about the universal coverage, and some of the focus that the administration as a whole placed on budgetary things—particularly in the first part—I guess it bothered her some. It partly tainted the view of
economists. I didn’t detect any hostility, just a sense that “We also want to do these other things, so now we should do them too.”

**Riley:** Did you get a sense of her own reliance on Magaziner? Was it pretty much unqualified confidence throughout the process?

**Cutler:** That was my impression. I don’t know for sure, because I didn’t observe what must have been a lot of the interactions. But my sense was that she had a lot of confidence in him.

**Riley:** And her own operating style—was she easy to work with?

**Cutler:** I personally found her quite delightful to work with. I thought she was a very good listener, an interested person, really wanted to absorb stuff. When she settled on a view, she felt strongly about her view, and I’m not sure it was easy to change her from her view. But that’s not an unusual statement. That’s just a statement about somebody and their beliefs. But I personally found her to be extremely pleasant and surprisingly interested in hearing things.

**Patashnik:** This stage we were talking about before—you’re drafting the plan, you’re viewing it in some ways as a house of cards. But at that time you’re still confident something’s going to pass.

**Cutler:** Yes.

**Patashnik:** There’s going to be healthcare reform.

**Cutler:** Yes. Everybody is convinced that there’s going to be healthcare reform.

**Patashnik:** Because public opinion favors it—

**Cutler:** Public opinion is so in favor of it. Clinton campaigned on it. It’s a Democratic House and a Democratic Senate.

**Patashnik:** That must have helped get the group going, I would think, this confidence that we’re part of a process that will lead to some kind of improvement, some kind of outcome.

**Cutler:** Yes. It makes the internal stakes bigger, because you’re not thinking an enormous amount about what the Republicans are going to want. There’s a little bit of that in the Senate—

**Patashnik:** But it’s only a matter of how’s the bargaining going to go? What are we going to have to trade?

**Cutler:** Yes.

**Patashnik:** I think I know the answer to this, but at this stage, welfare reform, totally different track, not part of the conversation—

**Cutler:** Completely different track. The obvious dovetails are with—when you make health insurance available to all people, some folks will get off welfare. That’s seen as a good thing by both groups.
**Patashnik:** That’s a check.

**Cutler:** That’s a check. That’s a very good thing. That’s something that’s universally agreed with, something we should push about the plan. But welfare reform is coming along later, and at least procedurally, they explicitly reject the task force idea. When David Ellwood is named in charge of the welfare reform along with Bruce Reed, the reporters ask him, “What have you learned from healthcare?”—which at this point was seen as a liability. He says, “Not to have meetings on Saturdays”—or weekends, or at night, or something like that. Making jokes about healthcare.

**Patashnik:** How much was your group, concerned about—not the Republicans, but other key actors like the CBO?

**Cutler:** Enormously concerned.

**Patashnik:** How would the CBO see this? Is this going to be scored this way or that way? Besides asking you how much you worried about it, what if anything could you do to try to anticipate how they would respond? Were there contacts? Was that considered to be appropriate within the scope? Could you have informal discussions with health analysts there to get a sense of how they were seeing things? Was there communication there?

**Cutler:** Enormously concerned with the CBO. The CBO is the game. The concern was over a few different levels. One was would they score any savings for managed competition. The hope is that by having all this competition in healthcare, the plans will drive down costs and get rid of inefficient things. Everybody believes that that will happen. The economists really like that idea. It’s a very good feature of the Paul Starr, Ira Magaziner, Walter Zelman approach. There’s not a lot of evidence on how much savings there will actually be. So partly I was encouraging my academic friends to try to produce articles on this.

One of the reasons why the budget comes in—why the managed competition with the budget—the budget is there to produce score-able savings, in part. Also to make sure that it’s real.

**Riley:** Thus the lid.

**Cutler:** One of the key reasons for the lid is to get CBO to announce that it will save money. The actuaries do the internal estimates for the administration, so the first draft of the budget, the actuaries said, “Nah, it’s got this hole. It’s not going to work, blah, blah, blah.” So come back, new thing. The actuaries say, “Nah, it’s not going to work, blah, blah, blah.” So at some point Ira just said to the actuaries, “Here’s a pen, write it. Write the budget so that you will score it as having savings.”

The actuaries don’t believe it will work. What they really believe is that it will get too hot and you’ll have to take the lid off. But by custom or law or whatever, they have to forecast what is in the legislation. The legislation does not give the power to remove the lid. So if it is written in whatever way, it has to be scored that way. That’s why it looks like an airtight thing, because it was designed to be there, even though a lot of the people scoring it would have told you, and did tell us, “We don’t believe this will actually happen.” So that is there for the CBO.
They are trying to be informal contacts during the development, but the CBO doesn’t want to bite in terms of saying what it will do. After it comes out, there is a lot of going back and forth to talk about things, both at the political level—which the CBO is always somewhat uncomfortable with—and certainly at the staff level.

**Patashnik:** Right.

**Cutler:** I was not around for all of that, but there’s an enormous amount of the actuaries at the CBO talking to the actuaries at HCFA and saying, “How did you deal with this? Why did you do it this way?” They’ll develop their own estimates, but if they’re that far off, they talk informally.

**Patashnik:** So your actuaries, and the executive’s actuaries at OMB, looked at it?

**Cutler:** More the actuaries, or more the Medicare actuaries?

**Patashnik:** In HCFA. They had so much experience, though, with CBO, I would think they’d be a reasonably reliable predictor of how the CBO sees things, what they’ll bite on and what they won’t.

**Cutler:** Yes, that’s why they were basically told to draft that part of it. There was another enormously big issue with the CBO that we ultimately lost, which was would the mandatory payments be called a tax. The administration’s view was that they should not be. The CBO ultimately decided they should be called a tax. That really, really upset a lot of people.

**Patashnik:** Was that a surprise?

**Cutler:** Surprise in the sense that we thought it would go the other way? I’m not sure. Surprise in the sense that people were disappointed, yes. I think it’s one of the reasons why Bob Reischauer never had any job in the administration, because he was the CBO director at that time and made that decision.

**Riley:** Were there any implications from the final passage of the budget plan? Maybe the answer you’ve just given, that it made the scoring mechanisms that much more important. But were there any other implications from the enactment of that first year’s budget plan that meant that you had to do some recalibration or some rethinking about what you were doing?

**Cutler:** No, in hindsight, the closeness of that should have said that we needed to completely rethink the strategy about starting left and moving towards the center, at least what I picked up. Again, I’m not sure I’ve heard the President say that—but that seemed to me, and I heard others say that should be the strategy.

At one point there was discussion about what was then I think the [John] Chafee plan, which was an individual mandate, not employer-based: “All families get health insurance. If you’re a poor family, we’ll give you money. If you’re a higher income family, well, you don’t get as much money.”

I was not part of it, but I remember hearing about discussions between Ira and him about whether we should sign on to their bill. I think it was ultimately decided that, for whatever reason, that
wouldn’t work, but in principle, when our bill came out, he would say nice things, and when his bill came out, the administration would say nice things, then work from there.

I think by the time things came out, the formal bill was actually there, it was so poisoned that I’m not sure any of it really mattered.

Riley: Obviously there were other packages being introduced in Congress, I think as early as the point that you’re still massaging the particulars in this. Were those analyzed internally to see whether there was anything useful that you could steal? Or was there just latent hostility?

Cutler: It was some of both. At the time there were the centrist Democrats and the [James] Cooper stuff. That got quite a lot of hostility. There was, “Why did he do that? Why is this?”

Riley: You mean from the White House towards Cooper?

Cutler: Yes. At least that was my perception. I was part of some discussions where people would say, “Gosh, this is terrible to have out there.” But I don’t know of any formal thing, so I don’t want to pretend that I know anything more than I know. The single-payer fans, the [James] McDermott and Pete Starks, never really liked the administration approach. I think fundamentally, and correctly, that was just seen as a rift in different ways of going about it, and single-payer never had more than a third of public support, and it just wasn’t the way the President wanted to go for a variety of reasons. Ultimately that group would be unhappy, but there wasn’t really anything else they could do.

The Senate had fewer plans. With the exception of the potential Republican Chafee plan, the Senate was more waiting to deal with what came to it than people actually putting stuff forward.

Riley: They felt like they had enough on their plate at that point to deal with. In the briefing book, there are a fair number of indications in early 1993—for example, “Bill [Willis] Gradison, President of HIAA [Health Insurance Association of America], meets with White House officials to see if they can work on putting health plan together.” Simultaneously the HIAA begins an ad campaign against the Clinton plan. But I recall there were a number of instances where the idea of managed competition—for example, if you turn the next page, March 8, “U.S. Chamber of Commerce endorses managed competition.”

How were you reacting to the debate going on outside the White House about the idea of managed competition? Were there so many different variations on the concept that this was really meaningless, or did you take these as endorsements that the direction you were heading in was in fact the right direction?

Cutler: Generally the latter, generally the sense that this was the right direction. Once you say that you want to save money and increase coverage and make people happier, you are in such a narrow box. You’ve gone to such great contortions that what everybody is desperate for is something magical that will make it happen, the magic wand that will save the money so that you can do what you want with it. That was very much the flavor of the day: “Here’s this system, and it promises all these savings, and it’s not rationing, and it’s not big government. It’s not any of these things that people hate, but it will do all these wonderful things.”
The Jackson Hole group that developed it really pushed it quite hard. I think it was easy for a lot of groups to sign up for, and very attractive, because it really looked like it solved those fundamental problems. Even internally—the economists really liked that. If you had said a single-payer thing, the economists would have just been nuts.

Riley: They didn’t like the idea?

Cutler: They did not like the idea of a single-payer.

Riley: It wasn’t considered more efficient?

Cutler: No, because at the time, the sense was that there was still a lot of waste in Medicare and a lot of excessive spending, and services that were not covered and not a lot of cost savings from competition, no real incentives to be efficient. There was a sense that competition, where appropriate, would do better, and managing the competition—which for some reasons one has to do—would be good. That, I think, gave people heart. There really was a sense among a lot of people that this was the way to go.

Riley: Were you consulting with economists at any of these outside organizations? Were there economists at the Chamber of Commerce you were in touch with? Were there any at some of these other business enterprises, or with the labor unions who were lobbying the process at this point?

Cutler: There were some. For example, Bob Rubin would have talked to his friends. I would sometimes be involved in talking to people, let’s say, at the “business roundtable” type things. I actually got to know Bill Gradison a little bit, because he, I think, used to be a professor at Harvard and was friends with a friend of mine. We never talked very much about the substance because he dealt with Ira and Mrs. Clinton about that. But we spoke about some things related to the insurance industry.

I dealt a lot with pharmaceutical companies because there was a lot of discussion at some point about what to do about rising pharmaceutical costs, so I had quite a lot of interaction with them.

Riley: Tell us a little bit more about that. That strikes me as being a little bit contrary to my expectations of what somebody in your position might have been doing. Were they initiating contact with you, were you initiating contact with them?

Cutler: Some of both, actually. I probably did more initiating. There was a perception at the time, which I think subsequent research has shown to be incorrect—but only subsequent research—that pharmaceutical costs were rising because prices of drugs were rising. In fact, that was widely believed about healthcare as a whole, that healthcare costs were going up because the price of services was going up. In fact, what we now know, in research done since then, is that mostly costs are going up because we’re doing more stuff, we’re getting more things—more volume, not higher price. But the official statistics were mismeasuring things. They were calling things price when they were really volume.

By the way, throughout this, one of the reasons for the budget was, “Well, we can stop prices from going up by capping them.” So that got into a very lengthy part about should we have wage
and price controls on the medical care sector. I was put in charge of that because we’d had experience in the early ’70s with wage and price controls. Generally, my view, like all economists, is that such things are a disaster, and so partly why I wanted to be in charge of it was to try to deal with that. At some points, it was a more moderate thing. For example, in the course of a year or two while one is setting this up, should one have some type of pricing schedule that makes sure by the time you implement it, things are not too messed up? So I dealt a little bit with that.

In the course of the drugs, this came up. I volunteered to do that partly because I didn’t want it to get out of hand. There was at the time, as there is now, a real issue of affordability of drugs. So the question was what do you do if you don’t want to do price controls, but you also want to make drugs affordable for people? How do you deal with that? So I got involved. At various points I had meetings with quite a number of drug companies to talk about pricing things. They at one point had several CEOs come in to talk to us. There were a number of firms that spoke with Bob Rubin regularly—not individual people, but people from the industry, biotech people.

They had quickly decided on what their view was—they didn’t want any price controls, particularly on new drugs. But there were other things that they thought were more reasonable—incentives for generics and marketing and detailing. In the end, the decision was made that it didn’t make sense to antagonize them and that something within the bounds of what was reasonable was the way to go rather than picking on that industry. I thought that was fine. In the end, I don’t recall having grave concerns about what happened.

The industry that was picked on was the health insurance industry.

**Riley:** Picked on in what sense?

**Cutler:** Both politically and substantively. There, actually, the administration was right. There had been a trend in the insurance industry over the past, say, five years up to that point, from the late ’80s to the early ’90s, of using more and more information to predict precisely who was very expensive, which individuals and which firms.

It used to be if the firm wanted insurance, okay, fine, you just gave it the standard rate. Now, with information from questionnaires, or from past medical history of the firm, or demographics, you knew a lot about how much the firm was likely to use in spending. So the insurers would basically quote firm-specific, or individual-specific, prices: “Okay, you’re a hairdresser in San Francisco, so your premium is $15,000 per person per year. Whereas you’re a small biotech company in Omaha, so you’ll get $2,000 a year.” Or, “We won’t cover this first firm at all, we’re just too afraid of it.” So there was this big, big problem—people were finding it hard to get insurance at reasonable rates. In fact, that gave the name for the Health Security Act. The “security” was you’ll be able to get insurance.

If you talked to the big insurers—the big Blue Crosses and whatever—they’d say, “We’d be happy to cover everybody more or less at the same rate. But when there are all these little insurers who will come in and pick out the healthy groups and charge them a low rate, then we’re going to be stuck with all these sick people, and we can’t afford that. We’d have to charge them a fortune anyway. So basically we have to follow them, and we have to price differently.”
The whole market was unraveling in pricing things differently. It was seen that you had to stop that. One way you had to stop that was by saying, “The only way you can sell to these little firms is part of a big group, and you have to charge the same price to everybody, and you have to take all comers. You have to guarantee you’re going to renew people, you can’t drop them.” That was one of the reasons for putting all of these small and medium-sized firms into this health alliance. You force them to play on that playing field.

Most health insurers are little. The Health Insurance Association of America was dominated by lots of very small insurance companies, and that was how they made their money. The big insurers were actually fine with that. They thought, *Great, people are going to want to come to us on a level playing field.* At one point, the five biggest insurers opted out of HIAA. They were happy to have that. But the little insurers who dominated this were really, really opposed to it because they thought it would wind up putting them out of business. So that was an explicit decision that we should put those folks out of business—or at least take them out of business operating that way. This is the group that runs the “Harry and Louise” ads.

**Riley:** I think that might be a good place to cut off. We can come back and talk about the generation of the opposition, if that’s okay with you. I don’t want you to lose your train of thought.

**[BREAK]**

**Riley:** I want to pick up on something you said earlier, that you had taken a great interest in the idea of wage and price controls. Did you talk with any old [Richard] Nixon hands about their experience with that?

**Cutler:** Yes.

**Riley:** Who did you talk with, and how did those conversations go?

**Cutler:** I’m trying to remember who I spoke with about them. I’m blanking on the specific names—

**Riley:** If it comes back to you when you get the transcript, you can fill it in.

**Cutler:** Everybody said it was a disaster. What’s different about healthcare is that there already are price controls. The government sets prices for the medical services it’ll pay. For a hospital, it says, “If you admit someone, we’ll pay this much.” Or for a doctor, “If you do this, we’ll pay this amount.” So one thing one could do is just promulgate those widely. In fact, that’s what HCFA at the time wanted to do. A lot of the people at HCFA were single-payer folks, and they said, “We can guarantee you that in the next year or two, there won’t be any increase in prices. We’ll just tell everyone they have to use our prices, and we won’t increase our prices.”
It wasn’t quite as extensive as in the Nixon administration. There’s a natural aversion to doing it, anyway, among economists. It was impossible in principle to think about doing.

I don’t sense there was a big political movement for it. I was at one meeting where the director of HCFA, Bruce Vladeck, said—the President was there. He said, “If you want, within 90 days, we will have regulations out there saying, ‘You must use these prices.’ This will happen right away.” He didn’t seem to bite at all. I think a lot of the discussion about it was to indicate the seriousness with which the issue was taken, that the President thought the issue of inflation was very serious, and that the administration was really committed to cost control.

There was an episode early on where the President said something about drug prices, and it produced a firestorm. Drug company stocks dropped 15%. My inference was that from that, he had learned this was something that one has to tread on very carefully. It can overwhelm the rest of what you’re trying to do if you decide to go down that path. So I think it was more there ultimately as a symbol.

**Riley:** I see. But the fact is—and my understanding of economics is modest—the idea of managed care within a budget actually suggests that there are going to be, at the macro level, controls on prices, is that correct? So is it a question of whether you’re going to impose the controls at a macro level as opposed to a micro level?

**Cutler:** It is a little bit. But you want to be careful because the price controls that they were talking about in the managed competition were at the level of the insurance premium as a whole, which is both price and quantity. It’s not as specific as, “If you do this, this is what the price is.” It was really more, “This is how much the premiums will be allowed to increase. Now you figure out how to treat people there.” It forced the issue to devolve to the providers.

I was never much in favor of budgets. But that’s fine; people were allowed to have different views on that. The arguments on the other side were things like, “In other countries—let’s say in Canada—the hospitals get a budget. This is your money for the year, treat the people for the year. Don’t come back—just treat the people.” That was the spirit in which this was done. It was to say, “We know that in other countries these things work. It’s not like we’re trying something unknown. No country has really extensive price controls on apples, outside of the former Soviet Union countries. No country is that extensive. But all countries have some regulatory pricing for healthcare. And—with the exception of the far, far right, which wants to get rid of that—basically everybody has come to peace with the fact that that’s how the government has to do things, by putting out a price schedule for something.” It was not quite as cut and dried.

**Riley:** How directly conscious were you of using the examples from other countries as you were developing this? It strikes me as being mildly unusual in the development of American public policy. My perception is that we, USA, we’re the greatest, we’re number one, we don’t have to look at other examples. Was there a lot of this in your prior work, or was there a lot of self-conscious effort to get out and mine the experiences of other countries to see what was possible in this instance?

**Cutler:** It’s an interesting question. In this instance—it wasn’t just me—the administration, and indeed the health policy world, was really focused on other countries and the success in other
countries. At the time, if you looked at Canada, they spent 40% less than we did, everybody was covered, and the approval rates for the Canadian healthcare system were about 60%. Approval rates for the U.S. healthcare system were about 20%.

Probably the single best guide to what the President was thinking about in healthcare is his speech in September of ’93 when he introduces the health plan. There’s a part in there about “other countries do it” and the book, the little health security book, about how other countries do it better. That was a big part of it. At the same time, I think he was worried about doing too much, because there was this debate about is there rationing in Canada, and people coming to the U.S. and so on. That’s part of why people were not in favor of single-payer systems—the fear that it either would become or would be characterized as becoming like the Canadian system in terms of the rationing. But there was actually great admiration.

I remember various conversations with Ira Magaziner and others about why it is that we felt we had to control healthcare spending. The specific share of GDP [Gross Domestic Product] going to healthcare never made a lot of sense to me. It didn’t make so much sense then, and it makes less sense to me now. I remember him saying something of the form, “In Germany, they have an overall budget, and then they get together—the business, the labor, and the government—and they decide how much it should be for coming years.” That seems like the right way to do things. You have some discussion about how much should be spent on healthcare compared to other things, and then you go about doing that.

So there was this great sense that other countries had found a better way to do it. One of the things that we learned over the course of the ’90s, actually, is that other countries had a large number of problems, and support for healthcare in these other countries actually fell. In Canada, support is now at the level of the U.S. So it was probably wise not to get into that, although at the time those were seen as a good model. This was so important, and so the government ought to have a hand in saying how much. You leave as much of it decentralized as you can, but you have the government be a central player in setting it up.

Riley: Was there—among the economists or other senior policy people you were dealing with—attention to variances in the political cultures of these countries that might allow them to do certain things that we couldn’t do here? In other words, a limitation to the exportability of those models?

Cutler: Yes, I think that was a lot of the argument for the managed competition, actually—that that was a uniquely American thing. If you read a lot of the rhetoric, you’ll see that this is the American way of doing things. But then the budget part was very much, both for scorability and from these other countries, and also to provide some insurance to the policymakers that the savings would be there.

Patashnik: I want to go back to press you just a little bit more on the Medicare experience, as you had done work on it. I had thought that the verdict was that moving to prospective payment had been successful in curbing growth in spending in that program on the hospital side. Was that your sense? After all, this was the largest health program the federal government was already running. Why wasn’t there more attention to building on that model, particularly when the bureaucracy was willing to help apply it more broadly?
**Cutler:** Medicare was seen as successful, to a point. I would say it was seen as 80% successful. Some of the reform that had taken place in the ’80s, particularly the prospective payment—that generally was a success. It lowered spending somewhat, and it didn’t do enormously bad things. And Medicare had followed it up in ’92 with physician payment. Medicare was weak, of course, in not covering prescription drugs or long-term care. So part of the plan was to augment Medicare to include, certainly, prescription drugs—

**Patashnik:** They’re doing it now, I guess.

**Cutler:** Yes, and a little bit of long-term care. There were some people, particularly in HHS, who wanted to do a single-payer thing. Medicare was the answer.

**Patashnik:** So somehow those systems were glommed on. The Medicare approach to limiting payment and single-payer somehow merged in some way, and they were hard to disentangle. You couldn’t leverage some of the Medicare experience without going the single-payer route.

**Cutler:** Medicare is effectively a single-payer, with the exception of the HMO part, which was then a small thing.

**Patashnik:** I’m trying to understand why there was less attention to this precedent—this thing that the government was already doing, a popular program, a big program, a program where there’d been concern about cost and an effort to curtail those costs had been implemented successfully. Why wasn’t that seen as the source of more wisdom, or more of an example to build on? Was it because the choice of not going single-payer somehow bracketed the applicability of Medicare to the healthcare effort?

**Cutler:** I see what you’re asking. Medicare at the time still had problems that limited its applicability as a model. One of the problems was that there were lots of debates about where cost growth had increased more, Medicare or the private sector? It was roughly about even. The Medicare folks would claim Medicare had done better, and the private sector folks claimed the private sector had done better. But there wasn’t an argument, “Oh gee, over the longer term, Medicare cost growth has been lower than the private sector, so therefore that seems like the right model.”

Also, evidence was coming out about the overuse in Medicare, all the procedures that were done that didn’t need to be, and how payments for the same thing differed a lot. Also, I think at heart Clinton was not a single-payer fan. I don’t think he wanted everything to be government. That said, there was an explicit decision not to change Medicare—that is, not to bring Medicare into the new system. It was seen as working well. The people there are happy with it. But we don’t want that to be the model for the entire population because a private sector solution is preferred. And at the same time, we don’t want to get rid of that. Maybe over time it gets weeded away, but not right away.

**Patashnik:** So it had a strange status.

**Cutler:** Very much so. In fact, it was left alone as much as possible, in part because of fears that people knew it so well that they would get upset if Medicare were changed too much.
Patashnik: And Medicaid?

Cutler: Medicaid was entirely different. Medicaid was generally seen budgetarily as a disaster. We were just coming off a few years in which there was all this gaming of the federal government, and Medicaid costs had soared. The first Bush administration finally halted it—not reversed it, but halted it. But within the Democratic constituency, there were a lot of people who were very concerned about many of the supplemental services that Medicaid was providing, particularly for disabled people and other people with special needs.

Nobody was opposed to mainstreaming the Medicaid folks, provided those additional services came along too. There was endless discussion about how you combine them, and I can’t remember the exact proposal. At various points there were things like once you leave Medicaid you’re off permanently, or else you fold people in right away with the special services, or something like that. It was clear that that program was not working very well.

Patashnik: If I have my chronology right, over the ’80s you do get coverage expansion in Medicaid. That’s really where you start insuring people who were lacking insurance—pregnant women, children—first with state options and then federal mandates. So there had been a dynamic of using Medicaid as an entry point for access to health insurance.

Cutler: Yes, and there’s the old liberal aphorism, “A program for poor people is a poor program.” There’s very much a sense that as long as poor people were in a separate program, they would be stigmatized. Now, why didn’t you then move other people into that program? The vast bulk of people had insurance they were happy with, and so you didn’t want to upset that too much. If somebody was happy with their insurance through their employer and that was working fine, leave that part. In practice, it’s almost impossible to leave that part alone. But the idea was, those expansions were good, take the gains you know and then do the last part. Move forward, keeping things as much in the private sector as you can.

Riley: Another part of the dynamic here is that Clinton had been a Governor, and Medicaid was something he knew as a budget-buster and a management nightmare as Governor, right?

Cutler: Yes. And at various points in the administration later on, there were proposals to do something with Medicaid about swapping things back and forth with states. I think the most that ever happened was more state flexibility in terms of doing things on Medicaid, and then, of course, the expansions. But when the expansions came, you didn’t even have to put the kids on Medicaid. You could create a separate program for them.

Patashnik: CHIP [Children’s Health Insurance Program].

Cutler: CHIP.

Riley: You mentioned earlier that you had met with representatives of the pharmaceutical industry. Did you meet with other interest groups or business organizations on a regular basis, either to compare notes or to listen to their grievances about how things were emerging?
Cutler: Yes. Many of them would come and want to complain to Bob Rubin, so I would join those. There were speaking events with various groups, and I did a bit of that, and Bob and Laura Tyson did quite a lot of that.

A lot of that happened in the last months of the year. There was, at one point, an outreach effort to try to get to businesses when the support from business was not really coming through. I was involved a little bit in that, although a lot of that happened after I left early in ’94. It was a mix. As I remember the feeling at the time, most people in the business world were still reasonably certain that something would happen, but they had fairly strong misgivings about the Clinton plan. The big employers were not quite sure about the regulatory parts, and the little employers about the health alliances and about the costs and the deficit issues. They weren’t hearing much that was reassuring, because the people who were out selling it were not economists, they were the health folks. They were looking for some reassurance on things, which I think the economists were in a bit of a difficult position trying to give—

Late in ’93 was the point when people were trying to evaluate whether they thought something like that was going to happen. Many of the small employers came in to complain. There’s this very frustrating thing: Economists always believed, as we were talking about earlier, that when businesses pay for health insurance, it’s basically just wages. They pay more, wages go down; they pay less, wages go up. None of the businessmen believed that. They kept saying, “If you make us pay more, we’re going to have to fire workers, and we’re going to go out of business.” We kept saying, “Look, look, all the theory and all the evidence suggest that that won’t happen.” There would be intense frustration where nothing much happened. As a result, the businesses were unhappy, particularly the small businesses.

I think it was always assumed that the small businesses would be somewhat unhappy, although some of them would probably go along. I don’t think anything was particularly done that got a fair number of them to go along. More of the surprise was that the big businesses wouldn’t do it. When the business roundtable wouldn’t endorse it—

Riley: February of ’94, the business roundtable endorsed Cooper’s proposal.

Cutler: I had just left, but I was still in contact with people. There was actually quite intense anger about that. If I remember right, it was a member of Congress who blasted them and said they were doing this because this insurance guy is on it, and how can he be so evil? I think there was some toning it down after that, but that was a very pivotal moment, coalescing that support was falling.

Riley: Were you working with the Office of Public Liaison doing public outreach? Or were you your own separate operation? Typically, if the administration is lobbying these outside groups, that’s where it would happen.

Cutler: I think they were doing some. All of the economists in the administration were open to business folks coming in, and so they would come in, particularly to see Bob or Lloyd Bentsen over at Treasury. So there was some informal exchange there. I vaguely remember formal groups being brought in and going to talk to some of them—without positive signs from them afterwards.
Riley: Let me ask a couple of questions from the earlier part of the chronology just to make sure we’ve got everything. It appears that because of the battle over the budget plan, you missed the hundred days mark. Was that met with relief or aggravation or resignation among people working on the plan?

Cutler: Partly relief, because we weren’t ready, although partly work slowed down because it was clear that the hundred days wouldn’t be met. There was also always a sense that if this was going to happen, it would have to happen quickly. So things stretched out longer, people in the healthcare world—particularly those who knew more about Congress—were getting increasingly concerned. I didn’t know enough about politics to know the concerns myself. But my friends in the administration who knew more about that were getting concerned.

At the design level, it was better, because we were not ready. In fact, there was an enormous amount of work just to come up with things and to write all the legislation.

Riley: Was the same true when the decision was later taken that NAFTA was going to be the next thing on the agenda? Do you remember? You probably wouldn’t have been privy to discussions about—

Cutler: I was not privy to discussions about that, but I believe it was the same sense. As time went by, there was less of a sense that one needed the delay. But a lot of the healthcare people were really upset that NAFTA was coming first. Healthcare was lined up, and the thought was that we were losing momentum.

Riley: I’m wondering, as an economist, at this point you were wholly invested in healthcare? You weren’t being asked to go outside this particular portfolio to deal with larger issues like NAFTA?

Cutler: No, I had more than enough. I was up on NAFTA in the way that someone inside the administration who’s an economist was up on it.

Riley: Did you get the sense that the NAFTA battle was having any effect one way or the other on your efforts to deal with the business community on healthcare?

Cutler: Business was generally very supportive of NAFTA. I don’t know if one of the reasons for doing NAFTA first was to try to shore up some of that support for the healthcare. NAFTA proved so contentious with Democrats, though, that it may have made the healthcare harder on Capitol Hill. It’s very hard to know about Congress because there are 535 different views of what people want.

Riley: In September the President gives his address. Were you involved in vetting or reviewing the speech draft?

Cutler: Yes. A little bit.

Riley: Was that common? I don’t know whether the President had given any public remarks on healthcare in the prior months and whether you routinely were in the loop if there were going to be Presidential remarks?
**Cutler:** I don’t know that he had given too many speeches about healthcare. Usually when he would give a major speech—the State of the Union and others—it would go to all the agencies to look at. This one did make its way around. I didn’t see it early on, and I didn’t help with the conception of it, but I had a little bit to do with it.

**Patashnik:** By the time that address occurs, the plan is pretty much put together?

**Cutler:** Yes.

**Patashnik:** We talked about the process of making it and some of the struggles. What happened between that period where you were in that smaller group struggling to get to “Now we have a plan”? What was the end of that process like? How did you have a sense of “Now we can stop” or “This is it for now”? What was that final stage before you were ready to go to the President and say, “This is what we want you to use as the vehicle”?

**Cutler:** As I recall, the actual legislation wasn’t introduced until January.

**Patashnik:** Right, the bill wasn’t drafted.

**Cutler:** Right. The bill is not yet drafted, but there’s a point where—

**Patashnik:** What did you have at that stage?

**Cutler:** At one point a draft of the document goes over to Congress and leaks out widely. That was the point at which we felt, *Okay, here’s what we really have.* That’s the point when it was done.

**Riley:** I’m wondering if it’s August, because the timeline says in August of ’93, “over 20 health reform bills introduced in Congress.” It would make sense that it would be around that date, one way or another. The administration may have precipitated competing plans, or members may have been eager to get their plans out—

**Patashnik:** It says on September 22nd, “Clinton addresses Congress and formally introduces plan.” Then it says in summer there was delay of the release of the plan. So it’s somewhere at the end of August, maybe the beginning of September.

**Riley:** These are the kinds of chronologic points that can be checked.

**Cutler:** Finally we had come together with a set of options about magnitude of the plan, and types of savings, and cost growth assumptions, what the budget would be like. A decision is reached on them. So that’s finally there. Then everything fits together, and you at least have an outline, and it was a very detailed outline that went up to Congress and then got widely released.

**Patashnik:** At the level of detail such that drafting the actual bill was mostly an exercise in technical drafting rather than creation of anything.

**Cutler:** Yes, I think that was largely the case.
**Patashnik:** How did the group feel about it at that stage? Did you feel that you had solved some of the problems or worked out a structure that was reasonable to defend?

**Cutler:** I think there were mixed views. It was not what anyone would have liked, but that’s always the case in policy. Different people probably had different views about that, if the question was enacting that. I was probably a bit less comfortable with it than some of the others because I did worry a lot about the house of cards aspect.

**Patashnik:** By that you mean that if parts of it were altered in the legislative process, the whole program would not function? What about it specifically concerned you?

**Cutler:** Trying to save money and expand coverage at the same time, which would have been impossible to get. That it was going to happen. Everything had to work right for the plan to be successful. If it failed one way or the other—failed either by controlling things too much or controlling things too little—it would either bust the deficit or produce havoc.

**Patashnik:** So you felt there was just no give. If you reached 97% or 98% of coverage, you wanted 100. And if, instead of saving money, it cost an extra few percent, you would have seen that as a bad outcome?

**Cutler:** The benefits in that plan were very generous. There were managed competition elements, which was good, and then there was the budget on top of that. Well, suppose that the savings from managed competition weren’t that high for one reason or another, and suppose that the budget gets looser—that is, we decide, for whatever reason, not to hold it down. Then, all of a sudden, you have a plan where all Americans have very generous healthcare benefits, and where there’s no restraint on cost at all.

The federal government at that point—if you looked at the plan, out of every new dollar spent on medical care, the federal government would have been paying about 60-65 cents directly or indirectly. So you had a situation where you could have produced a massive, massive federal spending. That would have been the case independent of whether coverage was 95 or 98 or 100%. It’s just that there was so much there.

On the other hand, suppose that costs were going up and you successfully held the lid on them. What you’d like to do is get rid of all the stuff that is wasteful, but we don’t have any guarantee that that’s what you’re going to get rid of. All we have a guarantee of is that you wouldn’t spend over that—assuming that that held. In which case, you may create some havoc. Here are people who want stuff, and they’ve been told that they can have it, but they can’t have it. Are people going to be really upset about rationing? Is that going to be a really bad idea? What’s going to happen to the development of the medical sector over time?

It was really not a question about the next few years. It was a question of whether in a decade we are going to be happy if we have this.

**Riley:** It was less a concern about Congressional manipulation of particulars that might make it fall apart, than it was you had doubts about the internal coherence of this bill, even if it had passed 100% intact. There were perils.
Cutler: I think there was a sense—at least I had the sense, which I may have picked up from other folks—that Congress rarely makes stuff like that better. Typically what happens in Congress is whatever you start off with gets distorted somehow.

Patashnik: How much commentary was there at that time, when the outlines of the plan were becoming known, by the Henry Aarons, the Brookings, the AEIs—people out there in the world who were not part of government, but were in a position to take a look at this structure and to begin to have some sense of whether this was going to be effective? Were you paying much attention to them? Were people looking for signals of how this was going to be received by policy elites?

Cutler: Yes, there was quite a lot of attention paid to that. There’s this thing called the Princeton Conference, which the Robert Wood Johnson Foundation does every year on a key issue in health policy. And the first one was that fall, November or December, to talk about the Clinton plan and health reform issues. I think generally people were fairly skeptical. There were a few reasons why. One is obviously because it was big and untried. I remember thinking at the time that no one had ever boiled the plan down to cocktail party size. You meet someone at a cocktail party, and they say, “So, tell me about the health plan.” You have to be able, in three sentences or so, to say what it does in a way that makes sense to someone. I don’t think we ever had that. Even if you look at when the President gave his speech in September, he said there were six principles—not three, not one, not two, but six. Nobody will remember six principles. So a lot of the subsequent, “It’s too complex,” I think one could have seen coming. There wasn’t a simple thing. Now, in part, this had never been tried on a big scale. But I think we underestimated the general sense in which people were going to get edgy.

Patashnik: At that time you’re beginning to get some feedback from reasonable people—maybe this is too complicated, maybe this might not work. Was there a feeling of, How can we modify this? Or Maybe we want to tweak this. Maybe we want to do something—phase it in, or just implement a piece of it. Was there creative rumbling along the lines of Maybe some of what they’re saying makes sense, but this is not a lost cause, we can fix this? Or was it out of your hands already—Now it’s going to be Congress’s. We’ve done what we can do, and we really don’t have any say for a while.

Cutler: I think it was in between those two. I think it was Okay, now it goes to Congress, there’s no sense us fiddling with it more. We’ll be a part of Congress doing this. So we’ll get some say then, but there’s no sense doing a bunch of revisions now.

Riley: Did you get the sense that either Ira or Mrs. Clinton had a kind of pride of authorship in the product and really didn’t want to have it messed up by Congress?

Cutler: I think a little bit, but no more so than anyone. I think actually both were very good at knowing that it would be changed.

Riley: Just a starting point, we’re starting over in terms of our negotiations.
Cutler: This is the starting point now. I remember at one point talking with Ira, and he was very happy, and I was happy too, that the plan wasn’t dead on arrival. He said, “That was one of my goals, to make sure we get something there that’s not DOA.”

Riley: Was it your impression that he had a good, thoroughgoing understanding of what was in those 1,342 pages?

Cutler: Yes.

Riley: Did you have a high level of confidence that he understood the dynamic of unraveling pieces of this in relation to the rest of the package? In other words, as it’s going through the legislative process, if you take out clause C on page 52, the implications for the rest of the program. Did he have a sophisticated enough view?

Cutler: I think he did. His sense of what was feasible differed from other people’s, but that’s true in anything. But I think he intimately understood it and the issues. I think he had hoped that all those briefing books from all the committees would then prove useful, because if someone said they didn’t like X, he could plug in Y, although I don’t think that ever actually happened.

Riley: You said that there was some discontent among the people who were involved in the creation of the product. Did that bleed over to other crucial political actors, people like Bob Rubin and Laura Tyson and Lloyd Bentsen? Are they uncomfortable with what this process had wrought?

Cutler: My belief is that everybody had a bit of discomfort with it. At various points there were attempts to enlist a broader set of community to help convince Congress to go along with it, and I’m not sure how successful that was. With something that big, inherently everybody’s going to be somewhat uncomfortable. But here, I think, the level of discomfort was probably a bit higher, in part because it was just so big and new. That is, inherently there’s going to be discomfort over something that people don’t understand that much about, but also the fact that people felt they hadn’t been a major part of it, and this thing was coming along. What are they supposed to do now? I think that did create some discomfort.

Riley: Is a part of your responsibilities going back to your two principals—to Rubin and to Tyson—and giving them, if not the cocktail party version, at least the 55-minute undergraduate lecture version?

Cutler: Yes. Over the course of this, they became experts in health economics, as everyone who has gone into the CEA’s position or the NEC’s position since then has become. They became quite expert on this, amazing, really amazingly so. But as a part of this I met with them very regularly and kept them up to date on what was going on and what were the issues. Occasionally if it was thought that there was something that needed a higher level than me, I would help them write a memo to Ira, or Mrs. Clinton, or the President, or whomever, laying out something.

That was a central task. There was also a lot of talking with other economists in the administration. I spoke with Lloyd Bentsen and other people at Treasury and with Leon Panetta and other people at OMB about what was going on and how to make sense of it, and what were
the economic issues and the budgetary issues. People would think about things in different ways, and so they would care about different things.

Riley: That was actually my next question. Could you tell us—particularly with respect to your two principals, because there was some anxiety, as you said, among economists about how the NEC and the CEA might interact. Was there a marked difference in the kinds of interest that Rubin and Tyson had when you were consulting with them on these things?

Cutler: A difference of degrees, not a fundamental difference. Given his Wall Street background, Bob thought about things in a Wall Street financial sort of way. So when we would sit down and talk about it, what he liked to talk about was, “Where is money coming from and where is money going to and what’s it buying and how do we make sense of it?” So I’d say, “Okay, here’s what’s going on. There’s some savings from reduced growth of Medicare and Medicaid costs. There’s some revenue in the public sector from tax increases on cigarettes. In the private sector there’s savings from lower premiums. Where that’s going is employers are going to spend more on this, and the government’s going to spend more on this.”

He would say okay, fine. Once he felt comfortable with that, when we would talk he would say things like, “Have things changed fundamentally? How do I understand it that way?” Then there were a set of economic issues about, “Does the underlying structure make sense?” and so on. But he said, “Why don’t you and Laura—that’s what the real professional economists have to think about, and that’s not something that I’m versed on.” If I thought there was an issue he should know about, we would talk about it. But his first interest was how the whole thing fit together at that broad level.

Laura and Allen Blinder and Joe Stiglitz, who by then had joined—all three of them were actually involved—focused on somewhat different things among the three of them. But, particularly with Laura, it was a sense of, “Was the design of the plan and what we thought was likely to come out something that made sense as an economic package?” That is, did it make sense that we were doing this managed competition thing with this budget and this set of benefits? If you put this out there, would the thing actually work the way it’s supposed to work? This was in addition to the budgetary stuff. They had just gone through hell on the budget, so she was quite concerned about that.

They were really getting into what do we know about whether this thing would actually work the way it’s hoped it would work.

Riley: Any comments on the other principals you were dealing with, Bentsen or—?

Cutler: I dealt less directly with Bentsen, but I dealt with his staff a lot. He came from Congress, so what concerned him was, “How do we take what’s going to come out here and get it through Congress and produce something workable?” I remember talking a lot to his staff about how many days were left in the legislative calendar. Was it actually feasible to do this? By when should it have gone through there in order for this to happen?

I remember his staff, and I presume thus him, getting increasingly concerned—the number of days left was not that high, and this was a very complex thing. So how were we going to do this? Thinking a lot about issues like, if we did it this way, it was going to go to this committee, and if
we did it this other way, it was going to go to that committee. Maybe we shouldn’t think about which one we think would be better, but maybe we should think about which committee we want it to go through.

So I think he was also concerned about the economics, but he was particularly concerned about how something was actually going to get across the finish line.

**Riley:** Were you ever dispatched, or did you ever have conversations with Howard Paster or his operations as this was going on?

**Cutler:** No.

**Riley:** So to the extent that you have any conversations about the legislative process, it’s more at Treasury than it is through the actual Congressional Liaison.

**Cutler:** Yes.

**Riley:** Did that strike you as unusual or were they just so preoccupied with NAFTA and other things?

**Cutler:** I don’t know. In thinking back on it, I don’t recall them sitting in a lot of meetings about anything. I don’t know whether Ira was working with them separately and wanted to separate out the two parts of policy development and legislation or what. I know that after it came out, Ira would go up to Capitol Hill and talk with folks, but I seem to remember those being, again, largely policy things rather than legislative things. It may have been that the political part was something that Mrs. Clinton did. I remember a lot of times hearing, “She’s going up to talk with Congressman So-and-so about whatever.” That’s a more political thing, whereas there’s a substantive meeting with the staff of the such-and-such committee, so let’s all go up and talk to them.

**Patashnik:** You were talking about the kinds of questions Tyson was asking about how actors would respond. Given how new this was (this hadn’t been tried), how much concern was there in talking to her and other economists about the lack of data? You didn’t have that much experience to rely on. Usually when economists study issues, they can point to past examples and you have evidence. Here you were, in many ways, operating without that kind of empirical background.

**Cutler:** It was a very big issue. It was something that we spent a lot of time over. Again, I think the economists’ predilection would have been, as a result of that, to go somewhat slower, to do more of a phase-in, to put the competition stuff in place, make sure that some of the savings are there, and then do the expansion of the coverage. That was seen by the political people as being a nonstarter, in part because of the Medicare catastrophic thing. You can’t have the spinach—

**Patashnik:** Dessert?

**Cutler:** Dessert isn’t quite the right thing—before the potatoes or something like that. There’s a certain logic to that, too. You can’t say to everybody, “We’re going to save a bunch of money, and then seven years from now you’re going to get something from it.”
Patashnik: Right.

Cutler: But it was a really serious issue, and it created a lot of worrying about what back-ups there were.

Patashnik: I’m trying to imagine the conversations where somebody would say, “We think this will happen,” and other people would say, “What about this? This could happen because these actors might have an incentive to respond this way.” Was there that kind of exercise, trying to go through and anticipate different kinds of scenarios?

Cutler: Yes, one of the reasons why the legislation was so big and complicated was to deal with all these different scenarios. Someone would say, “What if this happened?” and the usual legislative answer is, “We’ll write a law saying you can’t do that,” or “We’ll write it into the law.” Economists are never very comfortable with that because we always want to have incentives in place. But obviously that’s something that has to happen through legislation. So that showed up in part of the complexity. Some of the complexity—although only some of the complexity of the final bill—was because it had to deal with all these contingencies.

Patashnik: Were there any other techniques you could bring to bear to try to get a sense of how this would play out? Simulations? What kinds of tools did you use in trying to make these assessments about future scenarios? Or was it just best guesses?

Cutler: We used what evidence there was out there. Early on, we commissioned some and encouraged some outside economists to do work. For example, things not exactly like what was being proposed, but things like managed competition-type frameworks were happening in Minnesota. So there was some studying of that. There was a lot of effort to learn about what was happening in other countries, how budgets worked there.

On the economic stuff, I spoke with quite a number of economists about what we know about other attempts—ranging from minimal wages to earned income tax credits and other sorts of things. What would be the likely effects on the labor markets? We brought in several folks to help out. Partly by consensus and partly by just looking at what was out there, we tried to do as much as we could.

Patashnik: You also mentioned that by this time Stiglitz is in. Did he bring any concerns different from Tyson’s, or did he tend to echo her concerns?

Cutler: Joe brought some different concerns. Joe is one of the most creative economists of all time, so he was interested in ways to create incentives for stuff that seemed to be hard to create incentives for. That was valuable for some things. Because he came in late, though, I think he was probably less involved than Laura and Allen Blinder were.

Patashnik: Summers was not too involved at this stage?

Cutler: No. Summers was not very involved. I would occasionally go talk to Larry about it, but he was really doing only international stuff at this point.
**Patashnik:** By this stage, we’re now getting into fall. Part of what had placed healthcare on the agenda was the sense that in this recession, middleclass people were beginning to feel insecure about their health status. This wasn’t just for the poor or the near poor, but for people with reasonable jobs. So the economy mattered here.

Had the economy changed in any way over these months? Were you beginning to see improvement? Was there a concern about maybe the problem was beginning to become less severe? Are we missing an opportunity because, unfortunately, things are getting better?

**Cutler:** In retrospect actually, one of the things that led to diminishing support for the plan, particularly in ’94—but a little bit in ’93—was the economy was doing better, and so people’s anxieties were easing.

**Riley:** Did you have press responsibilities? Did you field a lot of inquiries from the press at this period?

**Cutler:** I fielded some, particularly from the more economics-oriented papers like the Wall Street Journal. They would sometimes want to talk, mostly to Laura. There was a little bit of press. I was not an official press spokesperson, although at one point they asked me to because there were questions about the integrity of the cost estimates. Senator [Daniel Patrick] Moynihan raised the issue. They asked if I would talk to some reporters about that, so I did. But much more of it was just, in the normal course of dealing with reporters, Laura or Bob would do things. If they were being interviewed for something, they would frequently ask me to be there, either in person or on the phone.

**Riley:** How large was the NEC staff in general terms?

**Cutler:** I think it was about 20.

**Riley:** Did you have a lot of interaction with other people on the NEC staff?

**Cutler:** Not an enormous amount. I was in one of the clusters with some other folks, but I got so absorbed by the healthcare stuff that I really didn’t have time to participate in many other things.

**Riley:** I was going to see if it was fruitful to begin a line of questioning about NEC relations with the CEA. You wouldn’t have had a lot of firsthand experience with that, because although your portfolio was a shared one, you actually got deputed to—

**Cutler:** What I saw was very good relations, actually. At the senior level—Laura and Bob Rubin and Blinder and Gene Sperling—relations were very good. I remember Allen Blinder saying at one point that when he came into the government he was worried about how much interaction he’d get to have. But after two weeks, he was not worried about all.

**Riley:** Do you think this was largely because of Rubin’s operating style? That’s a question we haven’t posed to you yet—Rubin’s role in the administration more generally, and his own operating style. What can you tell us about that?
Cutler: He was brilliant. He was brilliant for a couple of reasons. One is that he always kept his eye on the big picture, so he didn’t get bogged down in day-to-day details any more than he absolutely had to. With things like an economic plan, he was always thinking about what the big goal was and even helping to coalesce the big issues. All administrations are like six-year-olds playing soccer; they all run to where the ball is. It helps if there is someone who says, “Gee, maybe the ball is going to be over there soon, so maybe someone should think about that.” He did that very well.

In terms of his actual running of the process, that was also superb. I saw, not first hand but at a distance, the operating of the economic plan. That was really incredibly well done. It was a structured thing, and it was clear what role people had. Everybody felt as if they were taken seriously. I remember talking with people, and everybody felt comfortable about it. They agreed with what was going on. Healthcare obviously didn’t have that level of comfort with it.

Riley: Which raises the question, suppose you’d waited a year and gotten the budget through, and you assigned Bob Rubin responsibility for—

Cutler: I used to wonder whether that wouldn’t have been a better thing to do. He may not have known enough about health; it may have required more immersion in health than he had. But I think it could have used something like that. The other thing it could have used in putting together the plan was more political involvement. A lot of the substantive ideas, the ones we didn’t think anyone would object to, wound up being major, major issues.

Riley: Ira considers himself something of a political expert too, though, doesn’t he?

Cutler: He had never been in Washington.

Riley: No.

Cutler: I don’t know exactly whether he thought of himself as a political expert.

Riley: But I wonder if he didn’t think he could handle that part of the responsibility as well, that he had a political sensitivity. He had been responsible for some reforms in Rhode Island.

Cutler: Sometimes he has an abrasive personality, as we all do. There were some reports of Congressmen being a bit upset because he wasn’t smoother at times.

Riley: Mrs. Clinton didn’t have that problem?

Cutler: No.

Patashnik: Have we talked about her testimony yet?

Riley: No we have not.

Patashnik: How did people receive that performance when she went to the Hill? I certainly remember it as being very memorable, and that in many ways she came across quite effectively.
Was that your assessment? Did people like the way she responded? Like the way she defended the plan?

**Cutler:** Yes, yes, everybody was impressed. Internally, we had had a fair amount of dealings with her, but seeing her there, everybody was blown away.

**Patashnik:** Did that make people more optimistic about the plan’s chances?

**Cutler:** Yes, very much.

**Patashnik:** Somewhere along the line, I think pretty early, Moynihan, a key Senator, says something like, “There is no healthcare crisis.”

**Cutler:** Yes.

**Patashnik:** Was that before Mrs. Clinton went to the Hill?

**Cutler:** I think it was before.

**Patashnik:** I thought it was.

**Cutler:** Then at some point he also calls the cost estimates “phony.”

**Riley:** Why was Moynihan such a problem? Do you know why he decided to take this on? The only reference I see to him is November 22nd, when he and [Edward] Kennedy introduce a bill.

**Cutler:** Part of it may be he was upset that welfare reform didn’t go first. Some of our people were talking about that. It goes back to the cost control issues.

There’s an old argument that says that the cost of service goods has to rise over time compared to manufactured goods. The classic thing is a string quartet. It takes just as long and as many people now to do a Mozart string quartet as it did in 1800. But those people could earn more now for what they could be doing—in manufacturing, or whatever—if they were not playing string quartets. Therefore, you have to pay them more to get the string quartets. So the cost of service goods—which are inherently fixed things—has to rise over time because they’re not getting more productive like the manufacturing sector. An economist who’s a good friend of Moynihan’s, [William] Baumol, has written this about healthcare. So therefore costs will have to go up.

Part of what Moynihan complained about was, “They’re going to hold the lid on costs, but of course we know that that can’t happen.” It was clear that we didn’t have our act together when—it turns out that Baumol, who was behind that, actually had co-written a textbook with Allen Blinder, who was at the CEA. And they did not ask Allen Blinder to talk to him about it. Ira tried to talk to him himself, and of course got nowhere. In fact, there are very good arguments that this is not like a string quartet, that medical care is about the most productive dynamic industry there is. So it would have been easy to deal with. But I think that partly explained Moynihan’s reluctance, at least on the substantive side. There may have been other things going on about welfare reform or something.
I think also people differed over whether there was a crisis and what a crisis meant. Did you have to do something right away?

Riley: Was there a sense all along that the Republicans were going to be almost impossible to get on board for this?

Cutler: Yes.

Patashnik: But you needed some Republicans?

Cutler: We needed some Republican support so, as I picked it up, the idea was that you would do as much as you needed to bring the Republicans on, but starting from the left and working in.

Riley: In December, Bill Kristol starts writing these memos to the Republican Party. Do you remember hearing about this at the time? How was that dealt with inside the administration? What was the reaction?

Cutler: I remember Phil Gramm weighing the bill and saying, “There’s a tax increase at two pounds, and there’s a tax increase at 2.4”—because it didn’t have page numbers. There’s a bunch of comments like, “This will pass over my dead body.” So it’s clear that the far right is hardening its opposition. I don’t think that that’s seen that those folks were always going to oppose it. The stringency of “we should not do anything on healthcare,” which I think came later, was more surprising.

Riley: That was basically Kristol’s argument: We want the issue for the fall election in ’94. Let’s beat this down and take the issue to the public. In retrospect, that takes on some considerable significance, but it sounds as though, if you’re not planning on a great deal of Republican support to begin with, you don’t know how important that is.

Patashnik: Maybe it’s only in retrospect that people are so worried about the details and the struggle at the moment, but was there a sense that healthcare is an enormously important issue in its own right, because it’s a seventh of the economy and it affects all these people. But it’s more than that politically. It’s about the scope of government; it’s about the welfare state. It’s about Democratic activism.

The Republicans had had Ronald Reagan in and they wanted to scale back the welfare state and had some tax cuts but kind of got blocked and couldn’t push as far in. Democrats had wanted to build on Social Security and have national healthcare for decades and decades and hadn’t. These were the two ideological factions. This was a big deal about not just healthcare, but about are we building on the Reagan revolution or are we reversing it? Was that perception one that people in the trenches experienced, or was that just more or less gloss afterwards?

Cutler: It was very clear that whoever got national health reform was going to be the political equivalent of Franklin Roosevelt and Social Security. We had the sense that that was partly what was at stake and that was partly why the opposition was so fierce to it, much fiercer than pretty much anything else. That was something we were all aware of.
Riley: Being aware of that, did you either formally or informally think about the parallels in political station and the parallels in the public environment between 1935 and 1993, ’94? Was there much of a conscious effort to think, *If we’re producing this kind of reform, it has to come out of a receptive environment?* I guess you must have just assumed that the time was ripe.

Cutler: The argument of lots of folks we spoke to on the outside, who thought it wouldn’t happen, was that we only have major social movements when there’s a war or a depression or some other cataclysmic event. And we weren’t in that situation, so why do we think this will be successful? The counterargument was, “Maybe we are in such an event because people have gotten so fed up, and things have changed so much, that maybe now is the time.”

Patashnik: That assessment was based mostly just on poll numbers? People were looking at these surveys, and that was their main source of evidence—that, I guess, and the Pennsylvania election.

Cutler: Yes. Now, I have since subsequently spoken with Bob Blendon, a pollster up at Harvard, who claims that there was a big misreading of the polls to think that because people were concerned about healthcare, they would therefore support healthcare reform. But that was the sense of the polls. Ninety-five percent of people would say they were in favor of health reform. We were told, “You might not like price controls, but people are overwhelmingly in favor of it.”

Riley: There was a great deal of attention given later on by some people in the administration about drawing parallels between Clinton’s time in history and the progressive era. The notion was that the disruptions of the new technological age had parallels in the disruptions of the industrial age. That was a train of thought, I take it, that’s beginning to bubble up as early as 1993 when you’re thinking about healthcare?

Cutler: Yes, but he ran and was elected as the activist. He was going to do these sorts of things. No President, really, had run that way since Roosevelt.

Riley: Although there were other things that he ran on—the economic stimulus and so forth—but the realities changed and he managed to back away from it. You get the sense in talking with people at the White House that people are keeping 18-hour days, and they’re mostly focused on their inbox and trying to stay one step ahead of the press curve. I’m wondering how much time you actually have to sit back and reflect, *What is my place in time, in political time? Are we in an era that’s receptive to this?* Is it the case that some of you feel compelled to think about these larger issues in order to figure out maybe how to craft a program that’s consistent with the realities of the time?

Cutler: I didn’t do enough of it there. I don’t think anyone in healthcare was doing enough of it there. We were talking about Bob Rubin’s strengths. I think that is one of the things he was very good at, divorcing himself from the inbox and saying, “Are we really working towards our long-term goals here?”

Patashnik: Did he, Rubin, consider healthcare reform as a paramount, long-term goal?
Cutler: Yes. Everyone thought that it was, partly because the President was so utterly convinced of it. But you didn’t need him. In talking with him, I’d say, “These are the problems that are out there. These are the things we have to address.” Early on in the budget thing it became extremely clear that the great monster was healthcare. Everybody knew that. His great strength was drawing himself away and then saying, “How do we deal with this?” Not so much in a historical sense, but in the sense of where do we want to go and are we making progress in getting there?

Patashnik: We mentioned earlier the beginning of changes in improving the economy over this time. Was there any significant change in budget forecast from the time of the transition period over the course of ’93? Or was it the same picture?

Cutler: I think it was the same picture. I don’t think the mid-year estimates were much better or worse other than because of the President’s economic plan.

Riley: There’s a February 8, 1994, entry indicating “CBO report on scoring of Clinton plan.” I guess that’s the healthcare plan.

Cutler: Yes, that’s the healthcare plan.

Riley: That’s not the same thing.

Patashnik: I’m jumping ahead a little bit here, but are you already beginning to think at this stage of leaving government?

Cutler: Yes, I had only signed up for one year initially.

Patashnik: You knew going in that that was your plan.

Riley: That’s the convention for this position, right?

Cutler: My position was new, so it was a bit weird. It was either going to be one or two years, somewhere in that range. Usually when you go into high-level government service, it’s two years. I didn’t know how long I would go for. The staff-level position is usually one year. Officially I was a staff-level person, but I came in with the administration and was also at the NEC, where the jobs were more long-term. As the fall was coming around, I decided it probably made sense to go back after one year. There wasn’t a whole lot that was going to happen in the next year, and staying around to root for the health plan didn’t quite seem like—

Patashnik: You didn’t have the feeling that maybe this is going to go to Congress and then there’s going to be a conference, and then we’re really going to get down to it. And that’s when the key decisions are going to be made, when we get to that stage with bargaining between the White House and Congress.

Cutler: I didn’t think I would actually be part of that. I wasn’t sure there would be all that many people who would be part of it, but I didn’t think I would that much. It seemed pretty clear that the role of the economist was going to be pretty small.

Patashnik: So when actually did you leave?
**Cutler:** I left at the end of January ’94.

**Patashnik:** So you left before the CBO report.

**Cutler:** I left before the CBO report.

**Patashnik:** You knew that was in the works?

**Cutler:** Yes.

**Riley:** What were your conversations with your two principals about going back? Did they understand that this probably from your career perspective was something that you needed to do?

**Cutler:** Yes, I hope they both would have been happy had I stayed, but I think they understood that for me it made more sense.

**Riley:** Were you trying to get back for teaching obligations for the spring term?

**Cutler:** I didn’t have them, so I could have stayed longer. In fact, I did stay as a consultant to CEA, officially as a consultant. I was also unofficially talking with Bob Rubin, too, for some months after that. I made some trips down to Washington to talk to them.

**Riley:** Was this purely on healthcare issues or—

**Cutler:** Generally on healthcare. Occasionally they would want to bounce other things off me.

**Riley:** I don’t know whether there’s ever such thing as a receptive audience within a faculty because that suggests a gathering that really doesn’t exist. But were your concerns about the time being misspent down here realized?

**Cutler:** People were very interested to hear about it. Part of what I did, I decided I should try to educate more economists about the issues. So I tried to write things about that. I think it influenced my research in a positive direction, so ultimately it was a good thing for me, although I didn’t know at the time that it would be.

**Riley:** On reflection, have you thought about what might have been done—either in terms of process or policy—that might have allowed you to get more done? This is clearly speculative, but I think people reading the transcript in the future might like to have the benefit of your insights about how things might have been steered in a different way.

**Cutler:** I do think things might have been done differently. I think the process that was used did not serve the ends very well. It wound up alienating a lot of people. It clearly wasn’t designed to alienate people, but I think it wound up alienating a lot of people, obviously provoked the sense that there were 500 people meeting in secret to design this thing.

To the extent that one does this again in the future, one would have to be clearer about getting broad-based support for what’s going on and not saying, “Well, I don’t care about whether these
people are buying in.” As a process, it lacked a lot. Probably more important is substantively. If I can expand your question for one second—

Riley: By all means.

Cutler: There are three classes of reasons that people say why it all failed. The first class is politics reasons. The Republicans decided they were going to oppose it, and it became a political fight. The Democrats weren’t unified because they all thought they wanted their own thing. Combine with that some special interest things. That was clearly the view at the time. In preparation for this, I read Mrs. Clinton’s book, and that seems to be what she says now—special interests. There was certainly some of that, although I don’t necessarily think that’s the most important thing.

The second class of reasons that people give has to do with the process and the moment—that Clinton’s popularity was low at that point, so even though a more popular President could have done it, he couldn’t. And the process was so bad that everybody hated it, felt alienated, nobody understood the plan, and so on. There’s some of that. I think the most important, the third thing, is substantively, can one put together something that makes a lot of sense?

Given the constraints we were under at the time, that was almost what had to result—that or some single-payer thing. And that’s not what people wanted. What that’s reflecting is the fact that policy folks have the wrong view about what people actually want. What people want is not so much cost control for cost control’s sake, but they want to know that they’re getting value for their money. We should worry less about limiting what we spend and more about just making sure that we’re getting high value. Fundamentally, that means that the federal government is going to have to spend more on this, and I think a big mistake was to say we’re going to try to fit this within the existing federal government. Although God knows how we’re going to expand it.

In some sense, we got boxed in by the political realities of the time, and therefore the substance wound up that way. Then all of the problems—the administrative things are things you have to do if you’re going to insure everybody and control costs. And the rationing—well, if you want to make sure you can afford it, you have to have that there. I think there was a big, big misreading of what the goal of it was and what were the important things to do.

As I look back, I say we should have been willing to spend more because it was worth it, and that’s really what people were saying—not that they don’t want to spend more, but they don’t want to spend more on silly things. So do things to get rid of the waste, but then don’t worry so much about how you’re spending. Just say, “Look, if it’s worth it, we’re going to find a way to pay for it, and here’s how we’re going to find a way. We’re going to insure everybody, and we’re going to try and do it this way.” By avoiding that box, maybe it could have been more successful. But at the time, that box really was the mindset of what people saw.

So to some extent, my own personal sense is that ultimately we designed something because we had the wrong view about what needed to be done. And when that struck the wrong nerve in people, they backed off, and then nothing happened and it all exploded.
Patashnik: Based on your experience, do you think the government does have the capacity to identify where we’re spending wisely and where we’re not? Is that a policy goal that’s feasible to focus on?

Cutler: I think it can contribute to it. We’ve learned a lot in the past decade. We’ve learned how to tell more about when government is spending things wisely. But to some extent I think it can also provide incentives for the private sector to be more efficient in its purchases.

Patashnik: You said—I guess with the benefit of hindsight—that you’re not sure the focus on cost control was wise. Would you also say that about the original focus on ensuring everyone? Or do you think that that goal in retrospect was too ambitious? Is that still a legitimate policy goal?

Cutler: Yes, although I think there’s a big confusion about 100% versus 95% or 98% or something. But as close as one can get to universal coverage is, I think, actually increasingly important, particularly if you’re going to spend more, because you can’t have people left behind.

One of the things that we’ve seen over the past decade—and this showed up, I know, in later years from my conversations with people in the administration—one of the arguments people made against the plan was, “Once the economy gets going, and comes out of the recession and gets back to rapid growth, the problem will take care of itself and more people will have insurance.” What we learned over the ’90s is that the economy can do spectacularly and the problem won’t take care of itself. So that suggests that the federal government really is going to have to do it, and it’s going to have to make sure that everybody is insured.

Patashnik: When you’re doing these kinds of interviews, you’re encouraged to ask the questions for history. Imagine it’s thirty or forty years from now. There’s some President who’s tackling a large problem with a very ambitious plan, very ambitious reform plan. Skeptics say, “This plan is not going to work. Look back at the experience of the Clinton administration. That shows that those kinds of ambitious plans can’t succeed in the American political system.”

People at the time, advocates of the President, say, “No, that experience doesn’t apply to us. Times are different, or our circumstances are different, it just doesn’t apply.” Without having the benefit of knowing what the problem they’ll be tackling is, what do you say to somebody? What do you say to someone who wants to ignore this experience, who just doesn’t think it’s overly relevant 30 years from now as part of a new administration pursuing some plan to fundamentally restructure parts of our society or economy?

Cutler: I would say, one, do it slower. One of the things about the later years of the Clinton administration is that it had a lot of success when it took on bite-sized pieces. I think doing bite-sized pieces both makes the final problem be smaller and also demonstrates to people that you can do something well. So we can now say, “Look, we did this CHIP expansion well. Why don’t we do another expansion here?” I mean, if we had a President who was willing to do something like that. So one is, start smaller.

Second is on anything that’s going to affect people viscerally—and healthcare affects people more viscerally than anything else I can think of—you have to be able to show people what’s going to happen. It can’t be theoretical. It can’t be, “Managed competition, look at this great
idea.” You have to try it somewhere, you have to actually have it in place on a small scale and say, “Look, this worked. You can see how it worked. Let’s do it.”

I think the right strategy would be to have a process to get there, not to hatch it right away and say, “I want to enact this thing right off the bat.” But say, “Here’s my plan. I want to get there, but I’m going to start off by doing this. We’re going to show you that it works and that we can afford it, and then we’re going to do this. Then after that, we’ll decide what to do. My goals are to cover everybody and to have some degree of cost control”—if that’s what you think the goals are. The goals are whatever they are.

**Patashnik:** I guess now, to turn the question around, if the day you got to the White House, somebody from the [Lyndon B.] Johnson administration or from before had told you exactly those kinds of things—go slowly, do it bite-sized, give up on the idea of doing this all at once—what would you have said?

**Cutler:** Would have probably ignored them. The last little bit of it is going to be very hard, because you have to get those last hard-to-reach places. I suppose everyone always wants to claim that now is different. But unless you can say, “Look, this thing works, it works in Tennessee. It’s going to work for us.”

**Riley:** Tennessee is okay, but Canada is not okay.

**Cutler:** Canada is not okay.

**Riley:** Michigan is okay, but Germany is not okay.

**Cutler:** People in Kentucky are going to say that Tennessee is a failure. Then you have problems too. Partly I think it was just trying to bite off too much, and, as I said, misreading some of what the problem was.

The ironic thing is that measured by most administrations, the Clinton administration was extremely successful in healthcare policy overall. That’s the point of the paper with John Gruber. If you look at the amount of stuff that was done, it got an enormous amount done, with the one exception being that its major thing didn’t happen. But the CHIP expansion was a very big deal, and the Kennedy-[Nancy] Kassebaum, and the HIPAA [Health Insurance Portability and Accountability Act], and a lot of the patient safety. It really did enormous amounts by focusing in and saying, “Okay, this is something that’s digestible.”

**Riley:** I want to build on this and ask a slightly different kind of question. This was a kind of reform that was developed by a lot of very bright people. Yet even among some of the very bright people who were involved in it, there was a great deal of skepticism that it could work. Should this then be taken as an indication that large-scale reform isn’t intellectually possible? Ought this to be taken as an indication that we really ought to be relying more heavily on free market mechanisms to the extent we can, because of the rational limitations of policymakers?

**Cutler:** I think another failing of the political process was not having people experienced in Congress. Sometimes the pollster types were involved—I remember quite a number of meetings with them—but not on such a regular basis to be advising about what people were thinking about...
in terms of healthcare. I remember thinking for quite a while that it would have been better to have had a member of Congress be responsible—the way Leon Panetta and Lloyd Bentsen were brought in.

**Riley:** Some members of Congress probably felt that way.

**Cutler:** Which does not augur well if a President wants another policy person in charge. Bush did early on, and he did not get Medicare reforms. I think intellectually we’re not ready for big bang even now, even a decade after the Clinton plan. There’s less consensus now than there was then about what is the right direction for healthcare.

What’s interesting, if you look at the [George W.] Bush proposal on Medicare, it’s almost exactly like the Clinton plan. We’re going to have competing health plans, and people are going to choose among those competing health plans, and overall we’re going to spend less. Take away the words “health alliance” and you’ve basically got the thing. So for lack of anything better, that is still the reigning ideology—managed competition and health alliances and private firms with a government backup and universal coverage. Intellectually, there’s no consensus about what comes next, and that shows up in the various candidates out now with varying degrees of plans, but none of which is a broad, thematic sort of thing.

I don’t know so much about the legislative/Capitol Hill world, but my sense is there’s not a lot of coalesced sentiment there.

**Riley:** My question was less about Capitol Hill than it was a generic question about the possibilities of centralized planning, and whether this ought to be taken at a very macro level as an illustration about the impossibility of centralized planning. Or is it more accurately to be understood as the impossibility of centralized planning in a diffuse political system? That’s two different things. One is a question about intellectual humility versus confidence, and the other is a question about matching up ambition with a system that was created so that ambition would counteract ambition.

**Cutler:** I see what you’re getting at. To some extent, that’s right. We may never do centralized planning on a scale this big. I’m not sure anyone will ever try anything this big again, having learned the lessons this time around. But I don’t think it’s impossible over a period of time to get there. The later years of the Clinton administration do suggest that, with those goals in mind, you can find enough consensus on some things to move forward.

**Riley:** Exactly. But you had mentioned a couple of advantages to that, one of which was the ability to move incrementally in a certain direction. But there was an additional advantage that you didn’t mention, which is the idea of iterative decision-making. We’re not smart enough to know how to do this all at one time—

**Cutler:** I think that’s right. That’s certainly something that I learned from it, not for the least because everybody was surprised by what happened in the private sector afterwards. The projections at the time were that by 2000—the time being ’93 or so—medical costs would be 18 or 18.5% of GDP, something like that. In fact, they remained about 13.5% of GDP because the economy boomed faster than anyone thought, and medical cost growth was lower than anyone thought. Everyone complained that Clinton was going to stick you in managed care and you
wouldn’t get your choice of doctor. What happened was Clinton failed and everyone got stuck in managed care and they didn’t get their choice of doctor.

The cost savings were beyond what anyone in the administration had thought and the plans were different. If anything, people would have had more different choices of plans under the Clinton plan than they actually do have now, where most people can’t get anything more generous than an HMO [Health Maintenance Organization]. That was a major contributor to why the budget did very well; it was a major contributor to why real wage growth was high—health cost increases were very low. And it completely took everybody by surprise. Even the fans of managed competition never thought that anything like that would happen.

To be fair, we actually didn’t have managed competition in the sense of a leveled playing field and competition across the board. What we have is just a wholesale movement into managed care—whoever’s the cheapest, we’re going to go into. That was the business response to the failure of the Clinton plan—“Okay, fine, we’re going to do this on our own. We’re going to stick these folks in managed care, and we’re going to get all these cost savings.” That’s what happened. The world is a little bit better in the sense that money was saved, and a lot worse off in the sense that people are once again fed up with their healthcare and the healthcare system. Coverage isn’t any higher, so it looks like we’re aiming towards a new set of problems that politicians are doing their best to ignore—again.

What it should teach us is the humility of thinking that we know what’s going to happen, because we—we being not just economists, but everybody in this field—completely missed the boat on what happened. That should make us very hesitant about saying, “If we do this, we’re pretty sure that this is going to be the outcome.” We couldn’t even get the outcome right if we didn’t do anything.

Patashnik: Is there anything we haven’t asked you about that you want to talk about, any aspect of your experience?

Riley: What have we missed?

Cutler: We’re talking about the economists feeling that they were not so involved. I do remember talking to other people in the White House—like David Gergen, who came with the explicit idea that he would help out with some of these major issues, particularly healthcare. I spoke with him quite a lot, and David was also feeling that he didn’t know how to get involved in it. To some extent, one is so driven by events at the moment that it’s very hard to have any kind of rational thought on anything. One of the strongest points about Bob Rubin and the operation of the NEC was that it kept the ball focused on a set of priorities and didn’t let the priorities slip. You’re always tempted to say, “Let’s ignore that and deal with what’s coming up now.” That may have been the single most important thing—separate from making people feel collegial and making them feel like they’re heard—was that there actually was long-term planning.

Riley: So, having been somewhat skeptical about whether an NEC could work under the right circumstances, your experience indicated that in fact it worked very well.

Cutler: It worked very well, and it is extremely important to do.
Patashnik: It sounds like you give the lion’s share of the credit to Rubin as the leader as against anything about the way the process was set up, or the nature of the institution. Is that right?

Cutler: He gets a lot of credit, and the institution itself gets some. Institutions can only work as well as the people in them work them. Part of what he did was he was very clear in all of his dealings with us and staff, and dealings with everyone else, that the NEC would not subvert things. That permeated all of the economic things that I saw.

Riley: That’s a very good question Eric raises, because I’m absolutely confident that this is going to be a subject for study for a very long time. People will wonder what the factors were that led to its great success under one President—

Patashnik: It hasn’t really been replicated.

Cutler: No, the perception is certainly that it has not been replicated under this President.

Riley: And will there be a revival of it at some point? Will it become something that Democrats use and Republicans don’t for whatever reason? It’s a fascinating question. If you had colleagues at Harvard, economists, who are approached to go work in the White House, what would your advice be to them in terms of a) whether they ought to do it, and b) what kinds of things they should do to prepare themselves or to steel themselves for this experience?

Cutler: I think there are two kinds of benefits of working in an administration: One is, if you’re interested in public policy and how public policy is made, getting the chance to observe it first hand is worth a lot. You just see how things happen in a very different way. Everybody knows it’s not like the textbook way, but the ways in which it’s not like a textbook are really quite interesting.

The second reason is that you feel you can contribute to something that you really care about. Depending on how much you want the consumption value, if you feel you either don’t need that or have already done that, you should do it if you feel that you’re really going to help do something that you think is important. That will differ for different people, what they think about.

In terms of how to prepare yourself, if you’re not a political-type person—and I don’t consider myself a political-type person—you need to really know your material. If someone is going to trust you on healthcare, you have to be able to know stuff. Actually, what I found in the administration is that—in all issues, both healthcare and others—the people who knew stuff were the ones who people wanted to hear from, in a good way. Someone who understands what the facts and figures and results are does better.

You have to be prepared to think in ways outside of your discipline. That was one reason why it was correct to see economists as not being the sort of folks who were most naturally involved in healthcare. There wasn’t a great experience of economists thinking outside of pure economic reasoning. Well, there was some of that—whenever there was an op-ed by an economist in the paper, it was always, “Here’s an economic thing about whatever.” The non-economist would just look at that and say, “See, economists have nothing to bring to this.” Maybe Cutler’s okay,
maybe we like Cutler, but generally economic reasoning isn’t so important here because these people just aren’t helpful on this issue.

That’s a problem that one has to be prepared to overcome, partly by being willing to look outside of things. I also think just being honest about things. There’s a hard balance we were talking about in healthcare between how much do you do what is needed to be done because you’re the best person able to do it, and how much do you not do that if you think it’s really not the most desirable policy? You have to be honest and navigate that. I’m not sure there’s one clear answer to it. I don’t feel that I was incredibly successful at doing that. I’m not sure anyone ever feels they’re incredibly successful at it.

**Riley:** Did your real-world exposure to the policy-making process here at the highest levels cause you to rethink either your understanding about the role of politics in political economy, or did it in any way reshape your acceptance of certain established dogmas or doctrines in economics?

**Cutler:** I think it did somewhat of both, more of the former than the latter. I was actually impressed in government by how many people wanted to do the right thing, how many people thought the right thing would ultimately be the right politics. I picked this up a lot from Bob Rubin, who would always say, “Tell me what the right thing is here. Tell me both, what the political people say, but tell me also what you think the right thing is. In the end, that will turn out to be the best political thing to do.”

I was impressed by a lot of other people, in Congress and in the administration. Many of them really wanted to know what I thought or others thought—whatever the issue was—what do people think is the right thing to do here? I actually have more faith that over time, the right thing is easier to do than it seems at any point in time, because over time the agenda gets shaped in a way—hopefully—that one likes. Shaping of the agenda is the key thing. Then, in working out the details you can deal with all of that. Things are never quite the way you want, but if you get broad parts right—which I think there is a willingness to do by a lot of people—that helps out.

Day-to-day politics I learned to hate. But the political process I actually think really does have a tendency to do things that are right. A lot of the disagreements that I saw—when the press reports, “So-and-so fought with so-and-so else,” they make it seem like it’s a fight over who’s better looking. But in reality, it’s a discussion about which idea makes more sense. That’s the way it should be. There should be discussion about that.

On the economics end, my own personal sense—and this comes a lot from healthcare—is not so much that economics is wrong, or that there’s something about economics that’s wrong, but that you can’t do this with only economics. Healthcare so fundamentally touches people that you have to be very careful about what you’re doing. You may have some brilliant idea, but if it’s not clicking with what someone thinks is supposed to be happening to them, it’s just not going to go anywhere. You have to be sensitive to a lot of these other factors too. So over time, my work has become less purely economics and more, not political, but much more attentive to other disciplines that bear in on these questions.

**Riley:** Preference formation.
Cutler: There’s a new generation of economists being trained who really are much more attuned to this. I hope they’ll find it easier going than some of the battles—I think the healthcare battle is seen as perhaps the nastiest in some time—that have happened.

Riley: We spent an awful lot of time talking about something that, in sum, seems to be a failure. What do you think was your most important contribution? Where did you get your greatest sense of satisfaction, your greatest sense of success, during your year-plus with the President?

Cutler: I tried to serve him and the administration well in helping to design a policy that made as much sense as it could. At the pure economic end, a lot of the issues about the importance of healthcare and welfare reform and some of the plans about insuring more kids, came as outgrowths—the Kennedy-Kassebaum thing—of healthcare, which are issues that we struggled with and views that were put forward. Helping to educate those in government about healthcare things, because those issues kept coming up—hopefully that was important. After that experience, people would call me for advice, and I would provide advice about other matters. I hope that was important.

That experience, obviously, didn’t turn out so happy, but a lot of the themes that were laid down, and many of the ideas that were developed, did turn out to be important. And a lot of the context turned out to be helpful.

Riley: But at a time when you’d gone back to the academy and didn’t get a chance to go to a bill-signing ceremony to celebrate your victory.

Cutler: That’s right, maybe someday.

Riley: Well, David, we’re very appreciative of you spending this time with us. It has been an enlightening morning and early afternoon for us. You were asking questions over lunch about surprises. There often aren’t surprises, but the nice thing about these interviews is that you get an accretion of small things that I think adds up to an important picture of what was going on in the administration. It’s been fun for us, but I think people coming to the transcript—whether five years from now or twenty years from now—will have a very interesting and accessible body of evidence to draw on in terms of understanding this.

You’ve been very patient with two people who are not economists also. I will tell you that you’ve certainly developed a nice bedside manner, or tableside manner, for dealing with complicated issues in fairly simple terms. We’re grateful for that too.

Cutler: Thank you.