

An influential member of the U.S. Congress since 1976, Dick Gephardt stepped down from his position as House Democratic leader after the 2002 midterm elections, in which Republicans gained the majority in both houses of Congress. In late 2002, he announced his intention to make his second bid for the presidency; his first was in 1988.

Gephardt discusses the impact of the Reagan administration's fiscal policy, Democratic reaction to "Reaganomics," underlying issues surrounding trade negotiations, and the Asian financial crisis of the early 1990s.

Government's Role in the Economy

INTERVIEWER: Let's talk about the 1980s. Who were the New Democrats and the neo-liberals? What was the evolution of your own thinking about the right balance between government involvement and market involvement in shaping the economy?

DICK GEPHARDT: Well, I've always felt that capitalism is the best system. Competition really works and produces the best products at the lowest possible price, which is what we're always after. But the government has a role as an intermediary and at times as a rule keeper or referee, so that the hard edges of capitalism and the free market are rounded off a little bit [and] the whole thing can work to its optimal capacity. I felt [at that time] that government had a role to play in building the economy. We always felt that an infrastructure program, a national highway program, was something that you couldn't get without government activity. You can't defend the country without a military, and that's really a government role. You can't have a safe airline system unless you have somebody worrying about air safety and making sure that the companies do what they need to do with regard to safety. You can't protect the environment if you just let everybody do what they want to do no matter what the cost to clean air and clean water and to having some wilderness areas still available for people. I guess Lincoln put it best when he said, "Government ought to do what people cannot do for themselves." While that's a rough test, it's probably the best test you can come up with for the appropriate role for government—to help [do what] people can't do for themselves.

Reaganomics and the Tax Cut

INTERVIEWER: What challenge did Reaganomics pose to the Democratic Party? How did you try to reshape the vision of the Democratic Party as [the U.S. was] heading into the late '80s?

DICK GEPHARDT: The Reagan years were marked by one very big economic decision, and that was a very large, far-reaching tax cut that really changed economic policy and ultimately the role of the government. [The Republicans] argued [for the tax cut in] terms of supply-side economics. But there were a lot of us who never really believed that would work and were very worried about the deficits that we thought would result from these tax cuts without including spending cuts. Some Republicans, though, were cynical about it and saw the tax cuts as a way to de-fund government. [They wanted] to get rid of government because they were doctrinaire, ideological opponents of any government effort. Some of them [were] almost libertarians who [felt that] the government shouldn't even exist, even for national defense. So it was the combination of the supply-siders who really believed in the economic theory of ideological opponents of government that combined to come together [with the cynics] on a very politically attractive proposal to get rid of taxes or to get taxes to be very low.

When this passed the Congress, a lot of us were very worried that deficits would occur, that they would continue, and that we would complicate fiscal, budgetary, and monetary policy in the country because the government would have such a voracious appetite for borrowing capital. We believed that there should have been sufficient capital so that [it] could be borrowed at reasonable rental rates for individuals and businesses. Our prediction unfortunately came true, and we went from \$1 trillion of debt in this country to about \$6 trillion in debt in about 12 years. The economy was staggering and people couldn't borrow money. Inflation was up, interest rates were up, growth was down, unemployment was up, and what we feared [would happen] had happened. It took a very hard job by President Clinton in 1993, along with the Democratic Congress, to turn that policy around.

A Turning Point for Democrats

INTERVIEWER: We interviewed Robert Rubin last week and he was talking about his early meetings with Clinton when he was governor. [Just] before the campaign, he brought together a lot of people from Wall Street who really began talking about deficit reduction and trade liberalization, and these were not traditional Democratic issues. Wall Street wasn't often the source of ideas for Democratic candidates. What was your sense of [the] direction the party was going in, the direction Clinton and Rubin wanted to go in at the time?

DICK GEPHARDT: I was very supportive. In fact, I helped line up the votes for the budget reduction plan in 1993. [I also] helped a great deal in the drawing of the plan with Leon Panetta, who came to the Congress with me in the late '70s. To me, this was a departure point for the Democratic Party. Some day, maybe we'll get some credit from people for [that] work. It really began to identify the Democratic Party as the party of fiscal responsibility, of getting the deficit down, of getting interest rates down, [and] of getting inflation down, which is very important.

Bob Rubin was a very important part of this effort. He had the deep respect of Democratic members of Congress, not only because of his financial knowledge and his expertise, but because he's a real Democrat. He cares about people. He realizes the horrible impact on poor families when the economy is not working right. He really cares about the impact of our fiscal activity on the people of this country, so he was an excellent person [to help] the president sell this program to Democrats in the Congress.

NAFTA and Trade Talks: More Than Just the Bottom Line

INTERVIEWER: You're talking about trade. With NAFTA, was that a difficult decision for you to say, "This is not the right policy"?

DICK GEPHARDT: No, because I've worked on trade a lot since I've been here. I believe in trade [and] I think the WTO is a good thing. I've always supported international rules in trade. We suffer when we don't have international rules that we can get countries and people to adhere to. What was lacking in NAFTA was an enforceable set of provisions that would treat the issues of intellectual property, labor rights, human rights, and environmental concerns in a consistent way.

There's been duplicity in trade negotiations. The business community cares about intellectual property and so they insist on it being protected. Both international and national laws [are] being enforced in the [same] way trade treaties are enforced, but when it gets to labor rights and environmental concerns and human rights, the proponents of trade and many in the business community don't care. They don't think it should be part of trade negotiations because, frankly, they don't care about those things. I understand that, but I think it's inconsistent and I think it's wrong. What I wanted in NAFTA were enforceable provisions in the

core of the treaty for [labor rights and environmental concerns and human rights], just as there were for intellectual property. [This would then] cause the better enforcement of national laws on labor rights, environmental concerns, and human rights. We were never able to get that [stipulation because] they always shoved it into a side agreement that, in my view, had no teeth.

What we've seen since then is that none of that is being attended to. I have no illusions about how hard this is to do. I know it's a long project. I know it'll take a long time to even get the national laws of various countries to be enforced in their own countries. But I think that's [the] minimum that we have to ask for in trade treaties. At the end of the Clinton administration, through the work of President Clinton and Bob Rubin and others, we began to get much more effective provisions put in treaties on environmental and labor and human rights concerns, and that's what we have to continue to do.

INTERVIEWER: On NAFTA in particular, were you right?

DICK GEPHARDT: I think I am right. There has been very little progress on those concerns, and I think there will continue to be very little progress until we put effective provisions in the treaty. The natural inclination is always to go for the cheapest labor where the environmental regulation is the most lax or non-existent. Because it costs money, and everybody in business is trying to meet a bottom line, I understand that's a good thing. It's a case where society's good, the country's good, the world's good has to come into play. It's a place where capitalism has to be adjusted so that the things we're concerned about are not just profit, not just money, but other values that are as important and need to be recognized. Once again, the business community, proponents of free trade, are the first to say that intellectual property should be protected in trade treaties. They do that because they care about that, it means money to them [and] it is a valuable commodity to them. Well, people need to have rights, too. Labor needs to have their concerns listened to, and we all need to worry about the environment, because if we destroy the environment, we're not going to have an economy.

These longer range concerns need to be factored into commercial transactions so they can be dealt with. When you're dealing with Third World countries, it's very complicated and difficult. Often, Third World countries think we're raising these issues just to stop trade with them, to

keep them down, and to keep them in a poor condition. That is not our goal. One of the things I say to people in Third World countries is [that] if we could get better enforcement of labor laws and minimum wage laws, we could start building some consumers in these countries so that all of the consumption is not in America. If this is going to be real, two-way, free and fair, and prosperous trade, we've got to begin to build a larger body of consumers in the world who can share in the prosperity.

Compatibility of Trading Partners

INTERVIEWER: Let me ask you about globalization matters. What is your sense [of] the anxiety that's being expressed on the streets?

DICK GEPHARDT: If we just push trade at any cost, under any conditions, and we don't pay attention to people's legitimate and real concerns about trade—i.e. we're not worried about labor rights, we're not worried about the environment, we're not worried about human rights, we're not worried about displaced workers from trade treaties, we're not going to deal with the human equation in trade—then trade is going to get a bad name, and a very important process in the furtherance of human rights [for] the whole world will go by the wayside. I don't think that has to happen. There's a way to do this so that over time people will accept more trade between more countries and ultimately throughout the world as a positive.

The problem in trade is that countries are incompatible. They have different cultures, different levels of development, different money, different environment, different everything. The more compatible countries are, the easier trade is and the easier it is to deal with all of these adjacent problems. Trade between Missouri and Illinois is very easy; no one questions it, no one doubts that it's good for both the states. Trade between United States and Canada? Very easy, because of the compatibility between the language, the money, the culture, the way we do business. Trade between the United States and Europe [brings] more problems but generally [is] pretty easy. When you get trade between the United States and Mexico or the United States and Korea or the United States and China, you get into a lot more incompatibility and difficulty that you have to work through in the treaty and agreement process.

There's another thing we have to pay attention to that the Europeans have done much better than we have: When you have these different levels of incompatibility, [developed nations] need to invest in the infrastructure and environmental concerns of the developing partners. For instance, in the European Union, the more developed countries have invested over a long period of years a lot of money in Turkey and Greece and other countries that are less developed in order to bring about more compatibility. They work with their infrastructure, and they work on developing education and other trade adjustment assistance in those countries.

Let's go back to NAFTA for a moment. One of the things I wanted in NAFTA was a large fund through the NAD [North American Development] Bank, which was finally created but we've never put any money in it and it's never done much. We need that fund to build infrastructure on the border. [We need] more highways, more bridges, more housing, more sewage, and more water infrastructure on both sides of the border. We act like trade has no cost. That magically, somehow, it solves all problems. Well, it doesn't. There are things that societies have to do, that government has to do, especially in developed countries like ours, to make this all work. We just haven't paid attention to the things that we ought to be paying attention to in order to get everyone in our society and across the world to see that trade done right is a very powerful affirmative force in our world.

Crisis Contagion

INTERVIEWER: You saw some of the potential costs of trade in the Asian crisis. You're sitting here on Capitol Hill and you watch this thing spread over months across Asia, South America, and Russia. What was your sense of what was going on and the ability of Washington to control events? What did it tell you about the way that this trade expansion had changed the way politics operated?

DICK GEPHARDT: When you get in a room with Alan Greenspan and Robert Rubin and they say they're scared to death, they've never seen anything like this, and they're worried about whether or not we can get through it, I get worried because they know a heck of a lot more about it than I do. So I was concerned, but again, I think we avoided worse problems because [the] United States government and the Federal Reserve acted in a speedy and forthright manner to try to take care of some of these problems and [to] help developing countries avoid problems. We had a World Bank and an IMF, which are not perfect and make lots of mistakes,

but I'd hate to see the world without those institutions, and so I think we ought to fund those institutions properly. We ought to work with them to do their business better, in some cases, if we think they're doing things poorly. I do think that some of their economic thinking was a little bit arrogant with some of these developing countries, and they pushed them and maybe forced them to do some things that were very difficult for them to do. Maybe that isn't the right thing to do, but heck, we're all making this up as we go along. Nobody really knows the answers to all these things, and generally the leadership of those institutions and the UN are trying to do the right things, trying to figure this out.

We need to continue to support these institutions. Again, we need to get them to pay attention to the environment, human rights concerns, labor rights concerns so that they're looking at the full array of issues that they ought to be addressing. One of the concerns I have is [that] when they dealt with these developing countries, they said, "Here's the right economic policy for everybody, one size fits all. Just go with this and even though it throws a whole lot of people out of work, we're not going to worry about that." The leaders of those countries have to worry about that, and that's where I think you've got to fall back on your Abraham Lincoln admonition that some things people can do on their own, and [with] some things you need a little help from the government.

INTERVIEWER: When you're in that room with Alan Greenspan and Robert Rubin, what was going on?

DICK GEPHARDT: You had the contagion sweeping across all the developing countries. You had the Thailand crisis and [the] Indonesian crisis. Even South Korea and some of the more developed countries in Asia were in trouble. Brazil was having problems. The sense was that we can have an all-out worldwide recession and collapsing economies and collapsing currencies across the world, and we had never, as Rubin said, we'd never seen that before. Maybe in the Depression they saw that over a period of time, but nothing happened that quickly. What you have to remember is we're in a new world today. This is not 1922 or 1929, this is 2001, and communication occurs constantly and consistently across the world. Markets never close. People can climb on a plane today and go to any of these places, so there is a lot more information out there, there's a lot more travel between these countries. We live in a little bitty world economy today, and what affects one country can immediately affect a whole

bunch of other economies. So the developed world, and America is the leader, has to make investments, has to lead, has to be on the scene, has to try to help these countries when they get into real immediate difficulty. And I think that under Rubin and Greenspan's leadership we did that. [Congress] couldn't find the wherewithal to pass what they needed to when Mexico had its devaluation problem. We did [however] give them [Congress] the room to come up with an attorney general opinion. [This] allowed Rubin to go ahead and do something [that] probably was questionable, legally, but was the right thing to do and the Congress didn't stand in [his] way.

Political Repercussions of Fiscal Policy

INTERVIEWER: It was amazing to see the events leading up to the deficit reduction. Can you just tell us about the struggle that culminated in the government shutting down, why the Republicans lost, [and] what mistakes they made?

DICK GEPHARDT: It really comes in two parts. The original action was [in November of 1992. Right after he'd been elected, Clinton] invited Tom Foley, George Mitchell, and I—I was the majority leader in the house—to Little Rock. We met with him and talked to him about what was ahead. When I got my chance to talk, I said that the biggest challenge facing the country and him was the deficit. I said 1981 was a big mistake. We have to correct [that] mistake, and it's going to take spending cuts and tax increases. No matter what anybody tells you, doing this is going to be politically painful for the Democratic Party and for you, but it has to be done. The analogy is that this is the admission into the ballpark to play the rest of the economic game. If you don't get the deficit straightened out, we'll never deal with research, we'll never deal with education, we'll never get interest rates down [and] we'll never get inflation [down], and he [President Clinton] believed that. We worked with [Leon Panetta] in the Senate to write this budget. It had about 50 percent tax increases [and] 50 percent spending cuts, and as I predicted, it was very hard to pass. Newt Gingrich, who was the Republican leader and whip, had told me that they would not give us any votes, so we had to get all the votes on our side. We passed it by one vote in the House and one vote in the Senate.

I didn't realize how negative it would be in the next election. The Republicans ran ads against all of us who had voted for it, saying that we had voted for the biggest tax increase in history,

which it probably was. It raised taxes on gasoline and social security benefits, which are very unpopular things to do. But it was necessary in our view, along with the spending cuts, to get the budget straightened out and, indeed, in the next election, in 1994, we lost 52 seats in the House. [We had] lost control of the House for the first time in 40 years, and [we] lost control of the Senate as well. It was a very negative political act for the Democratic Party. In my view [it was] still the right thing to do. By 1994, people had not [yet] seen the good economics that were coming out of those actions. Unemployment was not really down yet. Growth was not really up yet. We hadn't seen the good from that act.

The second part of this story is [that in] 1995, [when] the Republicans [took] over the Congress [and] Newt Gingrich [became] the new speaker [of the House], he was very desirous of a lot more cuts in the budget because he didn't think the budget was yet balanced. A lot of us believed that we had taken the hard medicine and that the budget was going to go into balance. Even though it hadn't gotten there quite yet, this is a big boat to turn [around]. So [Gingrich] was insisting on a budget that made a broad range of cuts, including Medicare, Social Security, school lunches, and a lot of other things that the rest of us didn't want to cut. [The president, Newt Gingrich, Tom Daschle, and myself] were sitting in a meeting on the budget and we were at an impasse, and Newt turned to the president and he said, "You know, the problem here is you have [the veto power] gun to my head. And the truth is, I need a gun to your head. And I have one. I can shut the government down unless you agree to the budget we want, and if you don't, that's what I'm going to do." After the meeting, Clinton took me over in a corner and he asked me if I thought he would do this, and I said, "I wouldn't be surprised, and if he does, we're all going to get blamed." People will look at this and say, "None of them know what they're doing [and], they all deserve to be kicked out." I was really worried that it would be a pox on everybody's house. [But] as it turned out, the people did distinguish between who really wanted to shut the government down and who didn't, and ultimately Gingrich had to sue for peace. The Republicans took a hard hit for shutting [down] the national parks [and] Social Security. They came back day after day and said, "By shutting the government down, we don't mean Social Security offices. We don't mean national parks [or] the military. We don't want to shut that down." They destroyed their own argument. It was an important moment in our history, because what Gingrich was really trying to do was to get an interpretation of the Constitution that [gave him] veto power over the president, and we don't have that.