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The Politics of Deficit Reduction

ISABEL SAWHILL AND
RON HASKINS

Addressing the fiscal challenges facing the country in 2005 and beyond is daunting. Fundamental disagreements exist about what government should do and how to pay for it. Most Democrats are eager to preserve Social Security and Medicare more or less intact, as well as to protect the social safety net for low-income families and a host of other programs that are a legacy of the New Deal and the Great Society. Most Republicans, on the other hand, would like to keep tax rates low, limit the size and scope of government, and return to individuals more responsibility to provide for their own welfare, health care, and retirement. Neither party wants to adversely affect their constituents by either cutting spending or raising taxes for fear of retribution at the polls. Yet the fiscal challenge cannot be met unless a way is found to deal with these disagreements and barriers to action.

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In this chapter we address the substantial political challenge associated with restoring fiscal responsibility. As difficult as it may be, the nation must meet this challenge head-on for all of the reasons cited in earlier chapters. We begin with a brief history of efforts to pass legislation to reduce budget deficits or reform taxes. We then distill from this history and from insights drawn from students of American government a number of lessons that might help guide any new effort to close the gap between spending and revenues. Finally, we report on interviews with twenty budget experts who are, or have been, involved in negotiating budget agreements or related legislation. These interviews provide insight into the factors that shape budget negotiations and the prospects for significant deficit reduction over the next few years.

A Look Backward

A brief review of earlier agreements provides a set of case studies that illuminates both the barriers to greater fiscal responsibility and the ways in which those barriers have been overcome in the past. Specifically, we review the Social Security reforms of 1983, the tax reforms of 1986, and the budget agreements of 1990, 1993, and 1997.

1983 Social Security Reforms

The Social Security system faced insolvency in 1981 that would, if not fixed before July 1983, threaten to delay the full benefit checks of 36 million Americans.¹ To buy time and propose solutions, President Reagan established a fifteen member bipartisan commission with Alan Greenspan at its helm.² The commission recommended and Congress adopted a number of measures that not only solved the short-term problem of insolvency, but also improved the financing problem over the medium term. The most important of these measures were an increase in the Social Security payroll tax, a deferral of the annual cost-of-living adjustment for one quarter, a new tax on Social Security benefits received by upper-income participants, and the extension of coverage to most workers previously excluded (federal and nonprofit employees).

The independent commission's suggestions made up two-thirds of the seventy-five-year funding shortfall. As the bill worked its way through Congress, Representative Jake Pickle, a senior Democrat on the House Ways and Means Committee, after considerable behind-the-scenes work with colleagues on both sides of the aisle, offered a successful floor amendment to gradually raise the age at which full benefits could be received from sixty-five to sixty-seven, beginning in 2003. The final legislation was signed into law on April 20, 1983.

The success of this effort was due in part to the use of an independent commission, which provided political cover for the president and Congress while they considered changes to a highly popular program. In addition, the public perceived the mix of tax increases and benefit reductions as distributing the pain broadly. Finally, the public was willing to consider changes to Social Security because the program's financial viability appeared to be in imminent danger.

1986 Tax Reforms

In his 1984 State of the Union address, President Reagan promised "to simplify the entire tax code so all taxpayers, big and small, are treated more fairly."³ Almost three years later, on October 22, he signed the Tax Reform Act of 1986. Broadly characterized, the final bill shifted part of the tax burden from individuals to corporations, broadened the base of taxable income by eliminating many loopholes (deductions and credits), and lowered tax rates on both individuals and corporations. Most households received a tax cut and 6 million poor people were removed from the tax rolls entirely. The top rate on individuals plummeted from 50 percent to 33 percent, while the top corporate rate fell from 48 percent to 34 percent.⁴

Several factors played a part in the success of this legislation. These included presidential leadership; bipartisan support from key members of Congress; a public consensus that the tax system was too complicated and unfair; and political considerations—neither party wanted to be accused of blocking tax reform in the run-up to the 1986 midterm elections. It is especially notable that both parties gave up something to gain something. Democrats accepted lower rates on wealthy taxpayers, but

achieved the complete elimination of federal income taxes on millions of low-income families; Republicans accepted a greater tax burden on corporations to reduce the tax burden on the wealthy and the middle class. This willingness of both parties to compromise produced legislation that economists hailed as fulfilling their traditional admonition to promote equity and efficiency by broadening the tax base while reducing rates.

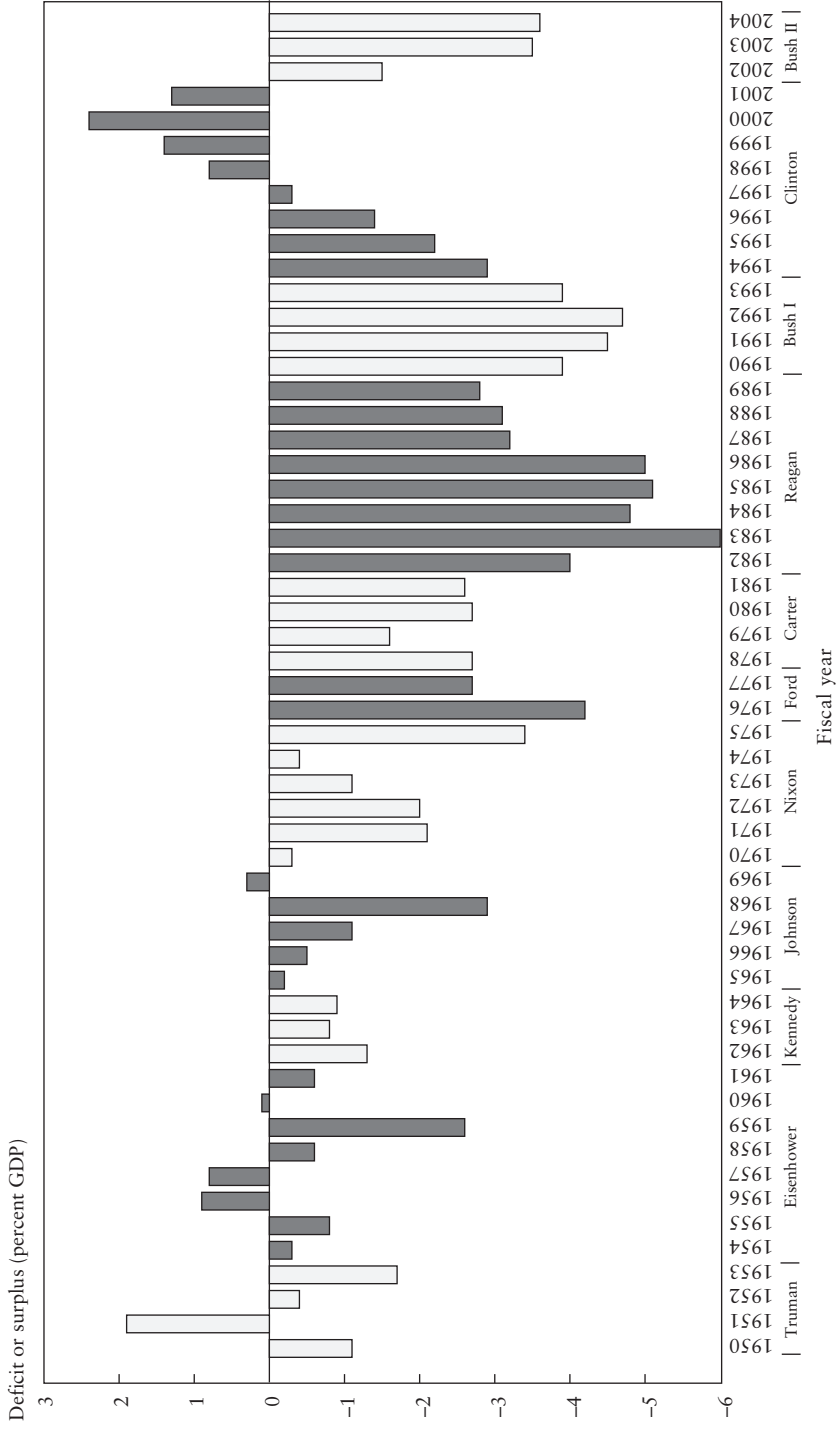
Unfortunately, once the legislation was passed, the process of lobbying for tax benefits began anew. Many of the loopholes closed in 1986 have been reopened, and new ones have been added to the law.

1990 Budget Act

From the end of World War II until Reagan was elected in 1980, federal deficits were not a major problem. They tended to increase during periods of recession and subside once the economy recovered (figure 6-1). But the tax cuts enacted on a bipartisan basis in 1981 along with the large increases in defense spending that were part of the “Reagan revolution” reshaped the fiscal landscape, producing unprecedented peacetime deficits. Congress and President Reagan reacted by enacting tax increases that reversed some of the revenue losses of 1981 and by passing the Balanced Budget and Emergency Deficit Control Act of 1985, better known as “Gramm-Rudman-Hollings” (GRH). GRH proved incapable of forcing the needed budgetary discipline because it focused on total deficits, which are heavily influenced by economic and technical assumptions beyond the control of Congress, and because Congress proved adept at procedural maneuvers designed to subvert the GRH controls. In July 1990, the Congressional Budget Office projected a sharp increase in the fiscal 1991 budget deficit. GRH rules called for draconian spending cuts that were substantively indefensible and politically infeasible. Something else had to be done.

That something was the Omnibus Budget Reconciliation Act of 1990 (OBRA1990). The new law grew out of a long and difficult budget summit. Democrats had a comfortable majority in both houses, but not enough to overcome a veto. Thus, cooperation with President George H. W. Bush was essential. He signaled his willingness to consider tax increases as part of the deal, despite his memorable campaign commitment to “no new taxes.” The parties agreed to conduct a summit with

Figure 6-1. Deficits as a Proportion of the U.S. Economy, 1950–2004



Source: Budget of the U.S. Government, Fiscal Year 2006 Historical Tables (Government Printing Office, 2005), table 1.2.

seventeen members, three from the White House and fourteen representing both parties in Congress. But even this group was too large and too divided to reach an accord and was later pared down to just eight people who hammered out an agreement.⁵ Revealing a chasm between their position on tax increases and that of their president, a large majority of House Republicans voted against the initial agreement, resulting in its defeat. It was not until the president vetoed a continuing resolution on October 6, causing a partial government shutdown, that Congress finally enacted a reconciliation bill incorporating many of the elements of the agreement plus several new elements designed to attract more Democratic votes.

OBRA1990 contained a package of tax and spending measures projected to reduce the deficit by \$482 billion over five years. The new law included a Budget Enforcement Act (BEA) that placed caps on discretionary spending and required that any new tax cuts or increases in entitlement spending be offset elsewhere in the budget through revenue increases or reductions in entitlement spending (this requirement was called "PAYGO"). By focusing on what Congress could control (legislated changes in spending and taxes rather than the total deficit), by creating a longer-term budget window (five years instead of one) with enforcement every year, and by viewing rules as a way to preserve past agreements rather than as a substitute for the tough substantive actions needed to reduce large pre-existing deficits, these BEA rules were widely perceived to be an improvement on GRH. They played an important role in reducing deficits in the 1990s.⁶ Unfortunately, Congress allowed the rules to expire in 2002.

1993 Budget Act

A recession in the early 1990s prevented the 1990 budget agreement from reducing the deficit as much as had been hoped. In the 1992 presidential election, Ross Perot talked incessantly about the deficit and won enough votes to put the issue back onto the national agenda. Thus it is not surprising that, after winning the election, President Clinton decided to make deficit reduction a major part of his economic program.

His deficit reduction package was enacted in the summer of 1993 by a vote of 218 to 216 in the House and a tie-breaking vote by Vice President

Gore in the Senate. The package received no Republican support and even some Democrats rejected it. Even so, it was estimated to reduce the deficit by \$433 billion over five years by virtually freezing discretionary spending (in nominal terms) and by raising taxes, primarily on the wealthy.⁷

Unlike earlier legislation, this law was a purely partisan affair in which the president took advantage of the Democratic majority in both houses to enact his program. Much as Bush had paid a price at the polls in 1992 for renegeing on his “no new taxes” pledge, Democrats in the House later paid a price for the tax increases that were a major part of their deficit-reducing efforts. Combined with scandals in the House and the defeat of Clinton’s health plan, the tax increases played a role in a devastating reversal of the Democrats’ political fortunes in the 1994 midterm elections. The clear lesson is that the political risks associated with tackling a deficit loom very large. But the risks to the economy of doing nothing are also large, creating a real dilemma for the political party in power.

1997 Budget Act

The 1994 election gave the Republican Party both chambers of Congress for a full congressional term for the first time since 1932. By June 1995 Republicans had enacted a budget resolution that would have balanced the budget within seven years while cutting taxes by \$245 billion. Spending cuts totaled \$894 billion and included steep cuts of \$450 billion in Medicare and Medicaid over this seven-year period.⁸

A group of conservative House Democrats wrote a compromise bill designed to attract more Democratic support. The compromise bill would have balanced the budget without cutting taxes—following the principle that tax cuts should not come before a balanced budget.⁹ However, the Republican-led Congress ignored the compromise proposal and passed a bill, with little support from Democrats, closely mirroring their original budget resolution. Clinton, as promised, vetoed the Republican bill, setting off a major confrontation over the budget. Political stalemate between Clinton and congressional Republicans continued throughout the fall, winter, and early spring. A series of short-term spending agreements called “continuing resolutions” allowed the government to operate

without a budget during much of this period, but the federal government was partially shut down on two separate occasions for a total of twenty-seven days.¹⁰ The two sides did not reach agreement on a budget until April 25, 1996, nearly seven months after the fiscal year began.

The 1997 budget agreement was forged with less partisan bickering than the highly fractious debates of 1995 and 1996. The Republican-controlled Congress and the White House first agreed on a set of goals for the 1997 budget package and then negotiated a path to get there. To achieve the goal of a balanced budget by 2002, Republicans and President Clinton set a target for deficit reduction that included roughly \$350 billion in spending cuts and \$85 billion in tax cuts over the five-year period.¹¹ Unexpectedly high economic growth produced higher revenues, allowing the final deficit reduction package to reduce spending by “only” \$198 billion, including \$119 billion in Medicare and Medicaid cuts, while still leaving room for an \$81 billion tax cut.¹² The net effect of the bill was to reduce the deficit by \$118 billion over the five-year period, 1998 to 2002.

Lessons Learned

As this brief history shows, the political barriers to deficit reduction have always been high. Any president or member of Congress that takes the steps needed to restore fiscal discipline may well suffer at the polls. Creating deficits by handing out tax cuts or benefit increases to the public is all pleasure; reducing them later brings pain. And even though the public at large would benefit from an agreement to reduce the deficit, specific groups would not. For members of Congress, political survival often depends on not offending such groups—whether they be the elderly, farmers, steel producers, wealthy individuals, or a myriad of other influential constituencies and their lobbying organizations that have vast resources at their disposal to fight spending cuts or tax increases.¹³

Some argue that deficits are not necessarily bad for the country because a deficit can crimp the ability of Congress or the president to increase spending. Over the past twenty years, however, reductions in taxes have gone hand in hand with increases in spending as a proportion of GDP, not the reverse.¹⁴ Increasingly, members of Congress who have been the most

committed to tax reductions, as shown by their willingness to sign a “no new taxes” pledge, have shown less concern for restraining spending.¹⁵ One possible interpretation of this perverse result is that earlier norms about the importance of fiscal responsibility have eroded badly while the view that “deficits don’t matter” has gained currency.

Given the difficulties of achieving deficit reduction, what might make it possible for elected officials to act in more fiscally responsible ways? The history of prior efforts to deal with contentious budgetary and tax issues, together with academic research, suggests a number of lessons that may prove instructive in addressing the current deficit.

Lesson One: The Public Must Demand Action

Elected officials may not take the painful steps required to reduce the deficit unless the public demands that something be done. Yet there is little likelihood of public outcry until members of the public become educated and concerned about the issue. The public will be apathetic if its leaders are not talking about the problem, and confused if these leaders disagree about the deficit’s importance. Early introduction of the issue into the national conversation is crucial because there may be a lag between the time policy experts recognize the problem and the time its seriousness begins to affect popular opinion. Perhaps most importantly, in the absence of strong evidence that deficits are affecting their lives, members of the public may not become sufficiently energized to insist on tough remedies. In 2004 a little more than 50 percent of the public ranked the deficit as a top priority, up from 35 percent in 2002. But this is still lower than the 65 percent of the public that ranked the deficit as a top priority in late 1994.¹⁶ Many observers believe it will take some kind of economic crisis to catalyze public opinion behind serious efforts to reduce the deficit.

Lesson Two: Presidential Leadership Is Important

Even with an economic crisis, and certainly in its absence, a president’s ability to set the agenda and to spend political capital on his main priorities are important ingredients in major budget legislation. In his first term, President George W. Bush seemed less concerned about the deficit

than his predecessors. He supported the establishment of a new and expensive entitlement to prescription drugs for the elderly; he reduced federal revenues to their lowest percentage of GDP since 1950; and he did not veto a single spending bill. In his second term, Bush has pledged more restraint in nondefense discretionary spending and has backed Social Security changes that would increase personal investment and eventually cut promised benefits, but only after adding more than \$4 trillion to deficits over the first two decades these proposals are in effect.¹⁷ He also favors extending tax cuts that would greatly reduce revenues over the next decade and beyond and supports a growth rate in military spending that exceeds inflation. These positions have left many observers skeptical of the president's willingness to lead the very painful fight that will be necessary to reduce the deficit.

Lessons one and two often work together. Jonathan Rauch of the *National Journal* has argued that two things are necessary to change a policy supported by narrow, short-term interests that conflict with the long-term welfare of the nation. The first is a public that believes an important problem exists whose solution will produce a "collective payoff." The second is a leader with the vision to create effective reforms and the political skills to get them enacted.¹⁸ At this point, the public is only moderately concerned about the deficit, although its concern is growing, and no senior elected official, including the president, has stepped up to propose a deficit reduction plan and then lead the fight necessary to enact it.

Lesson Three: Bipartisanship Works Best

At first glance, one-party government—in which the same party controls the White House and Congress—would seem to increase the chances of passing legislation to improve the long-term budget outlook. After all, with single-party control, the House or Senate is less likely to block a bill passed by the other chamber, and the president is less likely to veto a bill passed by Congress. But divisions between the two houses can be sharp and academic research into the relationship between one-party control of Congress and the presidency and the passage of legislation is mixed. Some researchers argue that one-party control eases the passage of legislation, while others hold that it does not.¹⁹

Whatever legislative success is achieved in a one-party system, it may be short-lived if it has little or no support from the minority that is out of power. The first five chapters of this volume—not to mention numerous other books and analyses from the Congressional Budget Office (CBO) and the Government Accountability Office (GAO)—argue that solving the deficit problem will require very tough decisions about the long-term structure of tax and entitlement programs. Changes must not only gain acceptance in the present, but must have staying power for many years or even decades. An agreement founded on principles acceptable to both mainstream Republicans and Democrats is more likely to hold up over time.²⁰

The budget deal of 1993 shows what can happen when the interests of the minority are excluded. The Clinton 1993 tax increase, primarily affecting the affluent, was partially reversed by the Bush 2001 tax cut. By contrast, PAYGO rules and discretionary spending caps were created under a bipartisan agreement in 1990 and were reaffirmed through two extensions (in 1993 and 1997) before dying in 2002 under a one-party government that saw budget restrictions as a hindrance to achieving other tax and spending objectives. As a former budget director we interviewed, who has been involved in numerous budget negotiations, said, “I have done it both ways, and I prefer bipartisan.”

Lesson Four: Everything Should Be on the Table

Previous chapters showed that the long-term deficit problem is so great that there is no one solution that will bring projected budgets into balance. Raising taxes or cutting spending alone will not solve the problem. Nor can the nation simply grow its way out of deficits because the costs of health care and Social Security for the elderly are increasing faster than any plausible projection of economic growth. Under these circumstances, all policy options should be on the table. Eliminating any broad policy avenue from consideration—raising taxes, cutting discretionary spending, curtailing entitlements—makes the job of restoring fiscal sanity virtually impossible.

Putting everything on the table is a necessity not only because the problem is large, but also because to achieve lasting consensus the pain must be spread broadly. The best hope of assembling a congressional majority

in favor of taking decisive action on the deficit is to create a compromise that inflicts pain on both sides. Generally, this means that Republicans must agree to tax increases while Democrats agree to spending cuts.

Lesson Five: Unorthodox Methods of Legislating Can Help

Another potential mechanism for avoiding some of the problems inherent in congressional action on budget deficits involves using unorthodox methods of legislating that provide political cover for members of Congress.²¹ For the longer term, more thought should be given to needed reforms in political institutions themselves—an important topic, but one that goes beyond the scope of this chapter.

The Social Security Commission of 1982 and the budget summit of 1990 provide examples of how Congress can delegate difficult decisions to extra-legal bodies. Legislation in the late 1980s and 1990s that sought to close military bases provides another example.²² A final example is so-called “fast-track” trade authority, which gives presidents the power to negotiate international trade agreements that are voted on by Congress, but cannot be amended.

President Bush has already used two commissions to further his own legislative agenda. In 2002 he appointed a commission to make recommendations on Social Security reform that may heavily influence the administration’s own proposal. Similarly, the president has appointed a commission to make recommendations about tax reform that he will presumably use to fashion his own proposal in the next year or two. These commissions are models of trying to build support for policy proposals that later form the basis of specific legislation. If the president or Congress were to appoint a bipartisan commission to recommend steps to reduce the budget deficit, the commission’s work could form the basis for legislation that might address all the elements of an eventual bipartisan compromise: Social Security, Medicare and Medicaid, taxes, and other spending.

Lesson Six: Rules Matter

Under Senate rules, any senator can filibuster a given bill and a group of senators can filibuster indefinitely by taking turns on the Senate floor. The

only way to stop a filibuster is to hold a vote to close debate that garners at least sixty votes. In effect, the rules governing filibusters mean that the majority party must have sixty votes to pass major legislation.

Reconciliation bills, however, cannot be filibustered. Reconciliation is a part of the congressional budget process and depends on the adoption of a congressional budget resolution or plan that spells out spending, revenue, and deficit targets for a five- or ten-year period, with reconciliation instructions. These instructions require certain committees to approve measures that cut mandatory spending or raise revenues by set amounts. These measures are then assembled into one or more omnibus reconciliation bills.

During the 1990s, reconciliation bills were often used to reduce the deficit. Special budget rules requiring sixty votes in the Senate on any tax or mandatory spending measure that was not paid for or that exceeded legislated caps on discretionary spending greatly aided the deficit reduction process. As noted earlier, these PAYGO rules and caps proved to be an effective way of maintaining fiscal discipline in the 1990s. However, even PAYGO and spending caps were violated by Congress once surpluses developed after 1997; these rules were officially abandoned in 2002.

Bush has advocated renewing these rules in modified form. His proposal—which was introduced in 2004 as the Spending Control Act—would limit increases in discretionary spending and would re-institute PAYGO for mandatory spending legislation.²³ The law would not require offsets for tax cuts, however. For this reason it has been fiercely resisted by most Democrats and some moderate Republicans who argue that fiscal discipline requires holding the line on taxes as well as on spending.

One approach that has been advocated by some as a means of maintaining budget discipline is to give the president more authority to eliminate individual spending or tax provisions from multipart bills through a line-item veto or an enhanced rescission authority. In 1996 the Republican Congress passed the Line Item Veto Act, which allowed the president to veto specific spending items in large, omnibus bills that often contain hundreds or thousands of provisions. The line-item veto would allow presidents to veto certain individual expenditures in the annual appropriation and authorizing bills and could be overridden only by a two-thirds vote of both houses of Congress. When Clinton attempted to use

this new line-item veto power, his rescissions were challenged and found to be unconstitutional by the Supreme Court.²⁴ Nonetheless, many experts believe a law could be written to avoid this constitutional problem by giving the president the power to propose a package of spending cuts that would have to be considered by Congress under streamlined procedures, including a fixed period of time, no amendments, and no filibuster in the Senate.

Last year's volume of *Restoring Fiscal Sanity* discussed these budget rules in more detail and argued that such rules can help Congress do the right thing by shifting blame from individual members to the rules themselves. Specifically, reinstating PAYGO for both mandatory spending and taxes, together with discretionary caps over a multiyear period, would be desirable. In addition, Congress should not be allowed to enact tax and mandatory spending laws that expire as a way of hiding their true costs. Finally, limiting what is considered to be "emergency spending" and developing better ways of measuring and highlighting longer-term budgetary commitments would also be desirable.

What Expert Observers of the Process Say

To understand more about the factors that influenced major compromise agreements, and to develop insights about how these factors might apply to our current budget predicament, we interviewed twenty Washington insiders. Half were Democrats and half Republicans; all had participated directly (as one of the principals) or indirectly (as a staff member of a principal) in formulating one or more of the agreements examined in this chapter.

We asked these experts to discuss, based on their experience, the importance of several factors in achieving the compromise agreements. The factors we identified included presidential leadership, one-party government, bipartisanship, use of nonofficial processes such as commissions and secret negotiations, external threats such as a financial crisis, and congressional budget processes or rules. We also asked the experts to rate the probability ("not likely," "somewhat likely," "very likely") that a budget deal and major reforms of the tax code, Social Security, and Medicare would be achieved in the next several years.

Sixteen of the twenty respondents mentioned external factors and presidential leadership as important in achieving a budget compromise. Bipartisanship was mentioned by thirteen of the respondents. Other factors mentioned, but only by two or three of the respondents, were a perception by both sides that the agreement was fair, a long and serious debate about the problem that produced some consensus, and an aroused public. A one-party government, use of nonofficial processes, and congressional rules were hardly mentioned at all. Generalizing across the views of these experienced experts in budget compromise and applying them to our current impasse, we conclude that an external threat, presidential leadership, and bipartisanship are the most important factors that could help forge a budget compromise.

These experts were also in substantial agreement about the prospects for a major budget deal and for Medicare reform. In both cases, sixteen of the twenty respondents said an agreement was not likely. A pervasive belief, among both Republicans and Democrats, that Republicans would not agree to tax increases was the primary reason our respondents felt a budget deal was unlikely.

There was slightly greater optimism about the prospects for reform of taxes, with eight of the twenty rating the likelihood of reform as somewhat likely and one as very likely. However, most respondents stated that only modest tax reforms could be passed, although Republicans pushing the reforms would likely try to make it appear that the reforms were major. One respondent, a former Republican senior staffer, reflected the views of many others when he said that Republicans “will change the definition of tax reform [by passing] modest changes like loophole closing and call[ing] it tax reform.”

Social Security was the one program that a majority of our budget experts believed had a decent chance of being reformed. Twelve of the nineteen respondents (one declined to respond) thought it “very” or “somewhat” likely. Reading their comments makes it clear that most thought reform would be based on some type of private account. The major reason respondents gave for their optimism about Social Security reform was President Bush’s determination to push reform.

In designing our questionnaire, we assumed that these experts would likely rate the prospects for Republican support of tax increases as low.

But Republicans might at least make progress on deficit reduction if they were determined to cut spending. Thus, we asked respondents to speculate on how much Congress could reduce spending relative to the CBO baseline. Fifteen of the twenty respondents said 1 percent or less, and only one thought spending could be cut by as much as 5 percent—and this only if there were a crisis such as a meltdown in the financial markets.

Clearly, Washington insiders think it unlikely that a major budget deal will pass in the near future. Nor is there any mystery about why they reach this conclusion. Given that most of our respondents believed that a major compromise would need to be bipartisan and involve both tax increases and spending cuts, the stance on taxes by the president and Congress virtually eliminates the prospect of a major budget deal. Thus, to the extent that the deficit is to be reduced over the next several years, it appears that Republicans will have to do it themselves and that it will involve only spending cuts. But given that hardly anyone thinks spending can be cut by more than 1 percent relative to the CBO baseline, serious progress against the deficit does not appear to be in the cards.

An especially revealing outcome of the interviews was the general sense that Republicans, who control both houses of Congress and the presidency, show little inclination to address the deficit. As one of the respondents observed, this lack of commitment to attacking the deficit contrasts sharply with Republican fervor over deficit reduction when they first took over Congress in 1995. As some of our respondents noted, many Republicans now value tax cuts more than deficit reduction or agree with Vice President Cheney's claim that deficits don't matter. For whatever reason, with quite a few notable exceptions, the traditional Republican commitment to a balanced federal budget seems to have weakened.

Conclusion

The nation faces a budget deficit of historic proportions. The current deficit will join forces with the retirement of the baby boom generation beginning a few years from now. The resulting explosion of Social Security and especially Medicare spending, combined with inadequate revenues to support current commitments, will create a torrent of red ink. This scenario makes it unreasonable to continue on our present course.

And yet, that is precisely what seems to be in prospect for the next several years. There was striking agreement among the experts we interviewed that three factors are important in shaping major budget and budget-related deals: presidential leadership, bipartisanship, and an external threat to the federal budget or the economy. The importance of these same three factors was also evident in the case studies reviewed at the beginning of this chapter. If these three factors were in play, the president might be able to work with congressional leadership on a bipartisan basis to craft an agreement that reduced the budget deficit by some specified amount over five years. It would help if, going into negotiations, there were an understanding that the final deal would achieve its total deficit reduction by putting everything on the table—all revenues and all types of spending. If the president and senior members of both parties in Congress emphasized the threat to our economy posed by the deficit, and especially if they emphasized that Americans are living high on the hog now and leaving the bills to be paid by their children and grandchildren, the public would in all probability respond, as it did in the 1990s, by supporting tougher measures.

Stronger procedural rules would help Congress hew to the deficit-reduction path, but it takes a Congress committed to deficit reduction to institute these rules in the first place. In the end, the public gets the government it deserves. Although opinion polls suggest that public concern with the deficit is growing, it has not yet reached the level of the late 1980s or the mid-1990s when Congress and the president took several efficacious steps to reduce the deficit. Unless leaders in the private sector become sufficiently concerned about the actual or possible impact of large deficits on the economy and convince elected officials to act, the evidence presented in this chapter suggests that the nation is not going to reverse its fiscal course any time soon.

Notes

1. Timothy Clark, "Congress Avoiding Political Abyss by Approving Social Security Changes," *National Journal*, March 19, 1983, pp. 611–15.

2. Steven R. Weisman, "Preparing for Compromise but Refusing to Concede," *New York Times*, November 7, 1982, sec. 4, p. 1.

3. David E. Rosenbaum, "The Tax Reform Act of 1986: How the Measure Came Together; A Tax Bill for the Textbook," *New York Times*, October 23, 1986, p. D16.

4. Jeffrey H. Birnbaum and Alan S. Murray, *Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform* (New York: Random House, 1987), Appendixes A and B.

5. This smaller group excluded Lloyd Bentsen and Dan Rostenkowski—the chairmen of the Senate and House tax-writing committees, respectively—and tax-increase opponent Newt Gingrich. The eight who remained were Nicholas Brady, secretary of the treasury; Richard Darman, director of the Office of Management and Budget; John Sununu, White House chief of staff; Representative Thomas Foley, Speaker of the House; Representative Richard Gephardt, majority leader; Representative Robert Michel, minority leader; Senator Bob Dole, minority leader; and Senator George Mitchell, majority leader. See Daniel P. Franklin, *Making Ends Meet* (Washington: CQ Press, 1993), p. 66–67, and Susan F. Rasky, "Capital Gains and Circles within Inner Circles: Behind the Budget Accord," *New York Times*, October 2, 1990, p. A22.

6. Though deficits increased in the early 1990s, they would have increased even faster without the spending curbs imposed by the BEA, the General Accounting Office (now Government Accountability Office) found. See GAO, "Budget Process: Issues concerning the 1990 Reconciliation Act," October 1994.

7. CBO, "The Economic and Budget Outlook: An Update," September 1993, table 2-2.

8. David E. Rosenbaum, "Congress Passes GOP Budget-Balancing Plan," *New York Times*, June 30, 1995, p. A1; and David Hess and Steven Thomma, "Congress OKs Deficit-Busting Plan," *Philadelphia Inquirer*, June 30, 1995, p. A1.

9. The *Washington Post*, among others, endorsed the compromise package, calling it "the best horse in the race thus far." See "A Good Budget Compromise," *Washington Post*, October 24, 1995, p. A16.

10. The government faced a partial government shutdown for six days between November 14, 1995, and November 20, 1995, and then again between December 15, 1995, and January 5, 1996. Six of the thirteen federal spending bills were signed by November 19, 1995. Spending bills that continued to be debated controlled functions such as defense, education, housing, and other social programs.

11. Eric Pianin, "Disagreements on Details of Budget Deal May Delay Congressional Action," *Washington Post*, May 14, 1997, p. A4.

12. CBO, "Economic and Budget Outlook: An Update," September 1997, tables 10 and 11.

13. James Q. Wilson, *American Government: Institutions and Politics* (Lexington, Mass.: D.C. Heath and Company, 1980). From 1955 to 1999, the number of groups listed in the *Encyclopedia of Associations* rose from fewer than 5,000 to more than 20,000. By 1999, the K Street economy was at \$1.45 billion, having grown by an average of 7.3 percent annually since 1997. In 1999, there were 14,205 lobbyist-client relationships and 12,113 active lobbyists in Washington. See Center for Responsive Politics, "Influence, Inc.: Summary," 2000 (www.opensecrets.org/pubs/lobby00/summary.asp).

14. See William A. Niskanen and Peter Van Doren, "Some Intriguing Findings about Federal Spending," paper prepared for the annual meeting of the Public Choice Society, Baltimore, Md., March 11–14, 2004; and William G. Gale and Brennan Kelly, "The 'No New Taxes' Pledge," *Tax Notes*, July 12, 2004, pp. 197–209.

15. More than half of the House of Representatives (222 of 435) and nearly half the Senate (42 of 100) have signed a "pledge" sponsored by Americans for Tax Reform vowing they will not increase income taxes. President Bush has also signed this pledge. Totals are as of December 13, 2004. See Americans for Tax Reform, "National Pledge" (www.atr.org/nationalpledge/index.html [December 13, 2004]).

16. The Pew Research Center for People and the Press conducted a poll five times between 1994 and 2004 using this question: "Should reducing the budget deficit be a top priority, important but lower priority, not too important, or should it not be done?" The percentage of people ranking the deficit a "top priority" were: 65 percent (December 1994), 60 percent (January 1997), 35 percent (January 2002), 40 percent (January 2003), and 51 percent (January 2004).

17. Peter R. Orszag, "Borrowing from Future Social Security Benefits: The Administration's Proposal for Individual Accounts," statement before the House Committee on the Budget, February 9, 2005.

18. Jonathan Rauch, *Government's End: Why Washington Stopped Working* (New York: Public Affairs, 1994), p. 198.

19. David R. Mayhew (in *Divided We Govern: Party Control, Lawmaking, and Investigations 1946-1990* [Yale University Press, 1991]) and Keith Krehbiel (in *Pivotal Politics: A Theory of U.S. Lawmaking* [University of Chicago Press, 1998]) are among those that find little or no benefit to one-party control. Sarah Binder has argued that one-party control and election mandates do matter empirically. Binder claims that a more complex model, which uses the percentage of agenda items that end in stalemate in each congressional session as the response variable, significantly alters the results found by Mayhew and others. See Sarah A. Binder, *Stalemate: Causes and Consequences of Legislative Gridlock* (Brookings, 2003).

20. Eric Patashnik, "After the Public Interest Prevails: The Political Sustainability of Policy Reform," *Governance* 16, no. 2 (2003): 203–234.

21. See Barbara Sinclair, *Unorthodox Lawmaking: New Legislative Processes in the U.S. Congress*, 2d ed. (Washington: CQ Press, 2000) and R. Kent Weaver, "The Politics of Blame Avoidance," *Journal of Public Policy* 6, no. 4 (1986): 371–398.

22. Four times between 1988 and 1995 Congress established an independent, bipartisan commission to close military bases. The process was integral to breaking a political stalemate that had inhibited base closings for three decades. The secretary of defense submitted a list of prospective bases to close with input from the military branches. The commission then held hearings, collected information, and modified the list. The commission's final list was then submitted to the president, who was able to either accept or reject the list as a whole. After presidential approval, the secretary of defense could begin closing bases unless Congress passed a joint resolution within 45 days to prevent all base closings. See Kenneth

R. Mayer, "Closing Military Bases (Finally): Solving Collective Dilemmas through Delegation," *Legislative Studies Quarterly* 20, no. 3 (1995): 393–413.

23. Spending limits for both discretionary and mandatory spending could be overridden by a three-fifths vote in the Senate. If the limits were exceeded, however, the Office of Management and Budget would be required to cut other non-exempt programs to make up the difference. See *Budget of the U.S. Government, Fiscal Year 2006* (Government Printing Office, 2005), pp. 26–27.

24. *Clinton v. City of New York*, 524 U.S. 417 (1998).