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Profiles in negotiation: The Murray-Ryan budget deal

By Jill Lawrence

INTRODUCTION



Jill Lawrence is a national columnist for Creators Syndicate, a contributing editor at U.S. News & World Report, and a contributor to the 2015 book The Surge: 2014's Big GOP Win and What It Means for the Next Presidential Race. en. Patty Murray (D-Wash.) and Rep. Paul Ryan (R-Wisc.) did not have relaxing holidays in 2013. When they weren't closeted in a room with each other, they were texting, emailing and talking on the phone. Halloween came, and Thanksgiving, and the frenetic run-up to Christmas. As Americans ate, shopped and trick-or-treated, Ryan and Murray soldiered on. Their mission: find a way to keep the government open and solvent for at least a year or two. Find a way to stop the recurring political showdowns that had cost the nation money, stability and respect. That they succeeded makes them unusual in these polarized times, and provides a hopeful template for future negotiators.

Congress is rarely popular, but 2013 was a year for the record books. Its Gallup <u>approval rating plummeted</u> from 19 percent in September, to 11 percent amid a federal government shutdown in October, to 9 percent in November, on its way to a <u>rockbottom 14 percent</u> average for the year.

The disaffection was earned. The 16-day government shutdown, triggered by conservatives trying to block funding for the Affordable Care Act, was the latest of a series of fiscal emergencies that had rattled the country and the world. Congress was shouldering most of the blame, polls showed, and Republicans in Congress were faring particularly badly.

The standoff took the country once again to the verge of a debt default. It finally ended with passage of a law to raise the debt limit and fund the government until mid-January 2014, only three months away. The law also set up budget talks between the Republican House and the Democratic Senate to come up with a longer-term agreement by that mid-January deadline. And this time, to the surprise of a jaded

Editor's Note: This paper is the first of an ongoing series produced by the Center for Effective Public Management at the Brookings Institution. This series features case studies of important negotiations and the government actors involved.

America, the struggles produced a deal-a two year compromise that restored \$63 billion to defense and domestic programs over two years; reduced the federal deficit by \$23 billion over 10 years, and offered temporary relief from self-induced crises.

On a visit home just after the agreement was announced, Sen. Johnny Isakson (R-Ga.) found himself accosted by grateful citizens at church, at the mall, at the airport, even at a dinner party with GOP activists. They all had the same thing to say: Thank goodness you have finally gotten your act together. "I received not one negative comment," Isakson said on the Senate floor. The partisans naturally engaged in "some grumbling about not getting this or that," he said, but like everyone else he encountered, they were relieved that the string of threats and crises was over.

The respite would last only until Sept. 30, 2015, and President Obama would reignite the old arguments months before that in a budget that proposed to lift caps on spending. It was, the administration said, a blueprint based on the expiring deal. Here is an analysis of how that deal came together, based on research and interviews with inside players from both parties.

A GULF APART

There had been little cause for optimism in late 2013, given the debacles of the preceding years. Among them were the August 2011 debt ceiling crisis, which brought the United States to the edge of default and was resolved with a Budget Control Act requiring \$1.2 trillion in spending cuts across the board ("sequestration") early in 2013, unless a "super committee" produced a more rational distribution of resources; the failure of the super committee that November to agree on an alternate plan; the 2012 year-end "fiscal cliff," a combustible mix of expiring tax cuts, impending sequestration and the need to again raise the debt ceiling; and then, capping years of brinksmanship, the 2013 shutdown–"peak bleak," as *Slate*'s John Dickerson put it.

It took an autumn of extreme dysfunction and public-relations angst to bring about official talks on the wildly disparate House and Senate budgets. Murray went to the floor 21 times to urge such a conference but was rebuffed. In a June memo, Republicans said a House-Senate budget conference was premature and would complicate ongoing efforts to solve the debt crisis. "It seemed to be an exercise in futility," said a Republican familiar with both budgets. "The two sides were on different planets in a lot of ways."

This was the environment-charged, polarized, urgent-in which negotiations commenced between a pair of highly unlikely partners.

Ryan was and remains a symbolic North Star for small-government conservatives. At 45, he has spent more than a third of his life in the House and even longer than that in politics. Ryan



grew up in Janesville, Wis., where his grandfather founded a construction firm in the 1880s. He started working on campaigns during college, held a series of jobs on and around Capitol Hill, and won his House seat at age 28. As chairman of the House Budget Committee for four years starting in 2011, Ryan produced starkly conservative blueprints that cut taxes and popular programs. They regularly drew verbs like "eviscerate" and adjectives like "draconian" from liberals, and went

"People joked that the pair had a 5 percent chance of producing an agreement."

nowhere in the Democratic Senate. But they made him a hero and thought leader among his fellow Republicans, and earned him the vice presidential slot on the GOP ticket in 2012.

A generation older than Ryan, Murray was part of the 1992 "year of the woman" when an unprecedented four women were elected to the Senate. She and her six siblings grew up in Bothell, Wash., where her father ran a five-and-dime store on Main Street. Back when her children were small, Murray visited the state capitol to protest plans to end their preschool program. Recalling the incident on the Senate floor in 2013, she said, "One legislator in particular told me I was just a mom in tennis shoes–and I had no chance of changing things." The soft-spoken, 5-foot teacher commandeered the phrase and used it in winning campaigns for school board, state Senate and U.S. Senate. Murray, now 64, is the no. 4 Democratic leader in the Senate and one of Democratic Leader Harry Reid's closest advisers. She chaired the Senate Budget Committee in 2013 and 2014.

The two lawmakers personally embodied the gulf between their parties. In 2013, the year of their partnership, Ryan earned a zero rating from the liberal Americans for Democratic Action and Murray earned the same from the American Conservative Union. People joked that the pair had a 5 percent chance of producing an agreement. "They couldn't believe I walked into a room with him," Murray said of her fellow Democrats as she sat beside Ryan for a post-deal interview with NBC's *Meet The Press*.

On the House floor, Ryan had summed up the fraught state of play in one sentence: "We have been at each other's throats for a long time." Yet circumstances were converging to create a relatively hospitable environment for negotiations. At the end of the year, about when Ryan and Murray were announcing their deal, the American Political Science Association (APSA) published a 182-page report called *Negotiating Agreement in Politics*. By choice and happenstance, the major ingredients the report deemed necessary for success were present in the Ryan-Murray process.

A DAUNTING OBSTACLE COURSE

The sequester was a fiscal strait jacket designed to be so intolerable to both parties that they would feel compelled to come up with a better way to spend and save money. The \$1.2 trillion in cuts over 10 years were split between defense and non-defense discretionary spending. Lawmakers in both parties were upset that some \$20 billion was about to be lopped off the Pentagon budget early in 2014–none more so than Murray, who represents 85,000 workers at Boeing and personnel at <u>eight military bases</u> in her state. Democrats were also concerned about automatic cuts in the areas of education, transportation, social services and research, particularly medical research.

The bottom lines for each party were familiar and not conducive to compromise. Adhering to the GOP catechism, Ryan ruled out all new taxes. In addition he was determined to preserve deficit reduction, and not just by any means. He was committed to permanent, structural changes in automatic federal spending that would generate increasing savings over time. Democrats refused to consider such changes in Social Security or Medicare, thus taking the major mandatory spending programs off the table. They also insisted that any restoration of defense money be matched on the domestic side, a critical precedent in their view.

One further potential complication was the possibility that Ryan might retain national ambitions. Brokering a bipartisan budget agreement that necessarily gave Democrats some "wins" would not be a selling point in GOP primaries. Ryan announced in January 2015 that he was not going to run for president in 2016. It's not clear if he had made that decision by late 2013, but he and his party were ready at that point to accept two difficult realities: that Obama had been reelected, and that more conflict-driven paralysis would reflect badly on them and Congress. "Look, I was part of the last presidential election. We tried defeating this president. I wish we would have," Ryan said on the floor. "To really do what we think needs to be done, we are going to have to win some elections. And in the meantime, let's try and make this divided government work."

That it hadn't worked for so long was trying to many on Capitol Hill, especially those most directly involved in budget negotiations that had foundered. The failure of the super committee to come up with a plan to kill the sequester, expecially its slashes to the Pentagon, was a major blow.

Some leading lawmakers spun the past failures-including 2011 negotiations led by Vice President Joe Biden and a bipartisan Senate "Gang of Six" that met the same year-as the foundation on which the eventual Ryan-Murray agreement was built. Murray was "walking into a minefield" as chair of the super committee, said Sen. Dick Durbin (D-III.). And while it did not succeed, "she learned in the process not only more about our budget challenge but also more about the leaders in the budget process. And I think it was that painful experience with the super committee that set the stage for the much more successful negotiation over this budget agreement with Paul Ryan."

Rep. James Clyburn (D-S.C.), a member of the House Budget Committee, noted on the House floor that he was on the super committee and "we didn't get much done." He also said he was part of the Biden Group "and we didn't get anything done." He added that "the third time seems to be the charm." Ryan told Clyburn that his time on "these prior endeavors" had not been wasted. "That was productive time because the findings of those groups were used in this agreement," he said.

PRIVATE PARTNERS AND THE IMPORTANCE OF TRUST

The work that came before was one element of many that made the third time the charm, as Clyburn put it. The crucial factor may have been that leaders in both parties wanted an agreement. That was especially true for Republicans. The shutdown had not been kind to them. In an October 2013 Washington Post/ABC News poll, 53 percent blamed the GOP for the shutdown (compared with 29 percent who blamed Obama), and a record low of 32 percent viewed the party favorably. The pressure was on House Speaker John Boehner to prove the GOP could govern responsibly.

At the most basic level, to have a House-Senate conference on the budget, both chambers need to pass a budget. With Murray at the helm, the Senate in March 2013 had passed its first budget in four years. So that prerequisite was in place. Fortunately for the country, other necessary but less defined elements of a successful negotiation were also coming together.

Murray and Ryan had been meeting and talking from the time she was named chairman, starting with a get-to-know-you breakfast. Between then and the October start of official talks, the pair had steadily built up mutual trust. "Too often in politics, people use what they hear to go slam them later," <u>Murray said</u> at a *Fortune* Most Powerful Women event in March 2014. "We had to agree not to do that, but also know that that agreement was going to stay in place." The proof came as they held conversations over a period of months "and none wound up in the paper the next day," Ryan said in an email read aloud by Nina Easton, the Fortune moderator.

That trust gave them a head start when they found themselves tasked with forging a budget agreement in a matter of weeks. So did the things they learned about each other over those months of careful listening. "My goal was to find out what made him tick. What does he feel passionate about? He needed a story about what he won and I needed a story about what I won. Before I could do that I had to find out what was most important to him," Murray said.

The pair's personalities and some unexpected commonalities smoothed the way. They both had endured shattering experiences involving their fathers. Ryan's father died suddenly of a

heart attack when he was 16, and his family received Social Security survivor benefits. Murray's father was diagnosed with multiple sclerosis when she was 15. He had to stop working and the strapped family relied on food stamps for a few months. On the lighter side, the two lawmakers shared affinities for football and fishing, and teased each other about both as a way of easing tensions.

"I fish and he fishes. I salmon fish. He fishes for some weird fish that they fish for [musky and walleye, according to Ryan's office]. We eat what I catch. We could kind of share stories about that," Murray said at the Fortune forum. She added that their football teams—the Seattle Seahawks and the Green Bay Packers—were "probably the thing that kept us laughing the most ... His team got kicked out of the season early on because their quarterback was injured. I would just give Paul grief about this football team. And of course my team kept doing better and better. It was kind of the go-to laugh that we could share." When their agreement passed Congress, Murray said, she called the Seahawks and "our quarterback signed a jersey to Paul Ryan." She added: "Finding something in common with the other person, so you have a kind of a go-to when things get tough, is really important."

Privacy was another critical element of the negotiations. Murray and Ryan each had the confidence of their leaders to negotiate for their parties and make judgments about what would or wouldn't fly with their colleagues. Polarizing, high-profile players in earlier negotiations, including Obama, Reid and Boehner, stayed in the background-resulting in a welcome dearth of press attention.

Murray says long-distance communications also helped foster privacy. The chief negotiators spent a lot of time at home during their eight-week sprint to the finish–Ryan in Janesville, Wis. and Murray in Whidbey Island, Wash. "Much of our negotiating was on the phone, talking to each other from our homes," Murray said. At one difficult moment, she looked out her window at the mountains and the water. "I remember thinking 'Thank God I'm not in Washington, D.C. I can just calm down right here.' I think he had to do the same thing."

When they were in Washington, talks were held in Murray's Senate hideaway, a small room decorated in neutral tones of cream and beige, in a neutral location off the Capitol Rotunda, about equidistant from the House and Senate chambers.

COLD HARD REALITIES

No scenic or soothing location could paper over the chasm between the Republican House budget and the Democratic Senate budget, and the clashing priorities they reflected. The conferees spent weeks airing their differences. "We've got that part down cold," Ryan said in mid-November. In Murray's undramatic hideaway, "they pushed and pushed and pushed," a "Neither of them ever walked away or ended negotiations over it. Neither one, after getting told 'no' for the 15th time,

walked away."

Democratic aide recalled. Ryan pushed for structural changes to Medicare, Medicaid and the Affordable Care Act. Murray pushed to close corporate tax loopholes. "There was a long period of pushing things that in the end, neither could agree to," the aide said. "Those things always came back. Neither of them ever walked away or ended negotiations over it. Neither one, after getting told 'no' for the 15th time, walked away."

At the same time, however, the pair were looking for areas of agreement. "We knew that if we forced each other to compromise a core principle, we would get nowhere. That is why we decided to focus on where the

common ground is," Ryan said. He described that as taking "all the different budgets that were offered" and laying them on top of each other to see where they overlapped-where both sides agreed there was waste, cronyism, corporate welfare, or "auto-pilot mandatory spending" that could be reformed.

It wasn't quite that simple, of course.

One thing that helped was flexibility. The deal could be long or short, large or small. The negotiators decided to avoid a repeat of fruitless quests for "grand bargains" that addressed major issues and forced the parties, in the words of a Republican aide, to "give up what they care about, inflict pain, do violence to their principles." Nor did they attempt to reconcile their respective 10-year budgets. They also worked to avoid the frequent negotiating pitfall of one side using a low-priority item as a bargaining chip—as in "We'll only support this, which we don't really care about, if you support this other thing, which causes you pain."

Perhaps the most important decision was to limit the time frame. "The key was coming to an understanding of what the scope of the agreement would be," Rep. Chris Van Hollen (D-Md.), the senior Democrat on the House Budget Committee, said in an interview. "You could have set the goal [as] let's find a way to deal with the sequester for a 10-year period, an eight-year period or a one-year period. At the end of the day it was a two-year period. That was partly dictated by how much in offsets was available. Where could you identify savings and revenue?"

MATH PROBLEMS

That was not a small question. Democrats would only approve a deal that restored domestic spending, and Republicans would only approve one that offset that spending with revenue so as not to increase the deficit. Democrats did not give Republicans the chance to tackle

Medicare and Social Security-the main drivers of mandatory, automatic spending and prime candidates for the type of permanent structural changes at the top of Ryan's priority list.

Republicans not only refused to raise taxes, they also rebuffed Democrats on their attempts to end subsidies and tax breaks they viewed as corporate welfare. Their targets during the debate included oil companies, agribusinesses, private jet and yacht owners, and companies hiding profits overseas. "I'm disappointed we weren't able to close even a single corporate loophole," Murray said in announcing the package. Ryan said the negotiators did target cronyism and corporate welfare–and the Heritage Foundation, for instance, noted the end of a 2005 program under which the government helped oil and gas companies research new exploration and production technologies.

That's hardly comparable to the headliners Murray and her party were after, big-ticket loopholes that Ryan wants to address as part of a broader tax reform drive that lowers corporate rates. But in the meantime, where were he and Murray going to find the revenue they needed to ease the sequester without blowing up the deficit? The answer was, in large part, fees. Their package added security fees to airline tickets; increased the fees businesses pay the government to insure their pensions; extended temporary user fees collected by customs and border agents; charged states for management of mineral leases on their land; and let the National Resources Conservation Service charge for helping develop conservation plans.

Among the most inflammatory elements of the emerging package were savings Ryan sought from the civil service and military pension systems. His budgets, in line with the Simpson-Bowles deficit commission, had proposed saving \$132 billion over 10 years by raising federal workers' pension contributions from .8 percent of salary to about 6.3 percent. In his talks with Murray, Ryan settled for a much lower yield of \$20 billion over 10 years-the same savings as an Obama budget that would have increased federal worker pension contributions by 1.2 percentage points.

But even the \$20 billion was a dealbreaker for some Democrats, who threatened to vote against the whole package on the floor-potentially killing it-if the provision wasn't changed. In negotiations that came down to the wire, Ryan and Murray agreed to raise the pension contribution to <u>4.4 percent but only for new hires</u>. The savings amounted to \$6 billion over 10 years.

Republicans also proposed an even more contentious 1-percentage-point reduction in cost of living adjustments in pensions for working-age military retirees (those under 62). Ryan called it a modest change to a generous program. But it generated an uproar, especially because it applied to disabled veterans and survivors of fallen troops. Parades of senators and House members condemned it and promised to fix it quickly in follow-up legislation.

In announcing the deal in December 2013, Murray said the pensions posed a difficult challenge. "He's a tough negotiator in case any of you want to know," she said of Ryan. The pair explained their rationales for accepting the cuts, and they weren't the same. Ryan called it "only fair that hardworking taxpayers" who pay for the federal and military benefits "are treated fairly as well." Murray said that if she and Ryan hadn't reached a compromise, "many of these same people would be facing furloughs, layoffs and uncertainty."

TESTING THE FAITHFUL

The deficit reduction in the Ryan-Murray agreement had been backloaded to the point where more than half of it was now outside the original 10-year sequester window. Anti-tax, anti-spending and tea party groups were livid about that and many other aspects of the deal. Detractors included FreedomWorks, the Club for Growth (which penalized lawmakers for yes votes on Ryan-Murray in its annual scorecard), Heritage Action (which had helped incite the 2013 government shutdown over "Obamacare"), Sen. Jeff Sessions of Alabama (the senior Republican on the Senate Budget Committee) and Sen. Tom Coburn of Oklahoma, the chamber's self-appointed spending auditor.

"I feel like John the Baptist in the wilderness," Coburn said on the floor, but forged ahead with demands to know why Ryan and Murray hadn't tried harder to save more money. "We spent \$978,000 to study romance novels," he said, and \$500 million on "brand-new crystal stemware for all the embassies throughout the world," and \$34 million on an abandoned, never-used camp for troops in Afghanistan.

The Ryan-Murray deal passed the Senate 64-36, with only nine of 45 Republican senators voting yes. Ryan persuaded 169 House Republicans to support the agreement, versus only 62 who opposed it. It passed 332-94.

Both negotiators were able to declare limited ideological victories–Ryan by holding the line on taxes and adding even more deficit reduction; Murray by rolling back cuts in domestic spending while preserving the major entitlements untouched. But there were larger accomplishments as well. Both could take credit for keeping the country on a stable path toward economic growth. The non-partisan Congressional Budget Office said the original sequester, had it gone forward in 2014, would have cost 800,000 jobs. So the backloaded deficit reduction that infuriated the outside groups made sense in the context of an economic recovery that still hadn't caught fire at that point.

The arguments and disruptions themselves turned out to be expensive in several ways. The Bipartisan Policy Center projected that the 2011 debt ceiling fiasco would <u>cost nearly</u> <u>\$19 billion</u> over 10 years, mostly in higher borrowing costs. White House and independent <u>economists estimated</u> that the 2013 shutdown lowered the Gross Domestic Product by \$12 billion to \$24 billion in the fourth quarter and reduced the private sector by 120,000 jobs in the first two weeks of October. Murray and Ryan, for the length of their agreement, spared the country those costs as well as the costs of falling confidence in America's capacity for fiscal management-including bond rating downgrades. "Mathematically, it seems like a small deal," said an aide who worked on it. "Given what we've gone through, it seems pretty monumental."

There were a couple of postscripts, however. In January 2014, the month after Obama signed the agreement, Congress reversed the military COLA cut for disabled veterans and survivors. In February, it restored the full COLA to all current service members and veterans, while keeping the 1-point reduction for those signing up after Jan. 1, 2014. The changes left a 10-year, \$6 billion hole. Lawmakers filled it by extending a cap on Medicare payments to medical providers.

A TEXTBOOK NEGOTIATION

Had we all been able to follow the progress of Ryan and Murray with a copy of the American Political Science Association's negotiations report in hand, we might have foreseen their success. Their road to a deal turns out to have been a model of "deliberative negotiation," in which participants search for fair compromises. Among the elements:

- Non-partisan fact-finding. Trying to head off the across-the-board cuts of the sequester was a numbers game. That meant a key role for the Congressional Budget Office, which assesses the fiscal impact of congressional proposals. CBO "scores" are sometimes wielded as weapons in political battles, but both parties generally trust and rely on its calculations. Budget aides say it was extremely helpful during the Ryan-Murray process.
- **Repeated interactions.** Party leaders, budget committee members and their staffs had had plenty of contact over several years of failed talks. Murray and Ryan had personally been in touch for months by the time the government shutdown ended and their official negotiations began. The pair's budget aides knew each other and worked smoothly together, according to both sides.
- **Penalty defaults.** Both sides need to fear the consequences of failure. In this case, there was a ready-made penalty default-the across-the-board sequester already in place. Republicans had the additional motivation of trying to undo the image damage wreaked by the shutdown and earlier crises.
- **Privacy.** Murray and Ryan had this in spades, for one overriding reason: Their leaders empowered them "to figure it out themselves, very, very privately," according to a Democratic aide familiar with the negotiations. It didn't hurt

that they were nearly 2,000 miles apart at various points, communicating one-on-one without anyone else around.

The APSA report also discusses "integrative negotiation," in which many issues are on the table at once and parties trade away their low priorities in exchange for concessions on high-priority concerns. The Ryan-Murray process, which accepted that both sides needed wins and included many examples of give and take, also followed that pattern to some extent. But both Republicans and Democrats imposed very tight constraints. Neither party had to alter its most meaningful principles or programs. The top issues on each side remained unaddressed, leaving open the question of how a future negotiation on a grander scale would fare.

THE LIMITS OF GIVE AND TAKE

Some Democrats can envision future budget deals, but nothing major. "If there's a majority among Republicans who want to raise the defense cap, our view is, 'well we also have to invest in education, scientific research, and other strategic areas.' And so there would be room for another agreement where we increase defense and non-defense investments in tandem," Van Hollen said. "My guess is it would have to be very limited in scope, but it would be better than the status quo."

Murray and Ryan have moved on. She is testing her negotiating skills as the senior Democrat on the Senate Health, Education, Labor and Pensions Committee, which is charged with rewriting the contentious No Child Left Behind Act. Ryan, the new chairman of the House Ways and Means Committee, will be even more severely tested in the choppy waters of tax reform. Together they have teamed up on a bill to promote "evidence based policymaking." It would create a 15-member commission to study how best to expand the use of data to evaluate the effectiveness of federal programs and tax expenditures.

This arose from Ryan and Murray texting back and forth on Election Night 2014. The two of them said that "we should do something to show that Democrats and Republicans can work together, even after an election like this," a Democratic aide said. Ryan's original version focused on spending programs; at Murray's suggestion, they added spending through the tax code as well.

"Great to be back working w/ @PRyan on a step to help govt work better for families & communities. -PM" Murray tweeted Nov. 20, with a link to her press release. Ryan retweeted the Murray tweet and several subsequent links to editorials and articles about the proposal –including praise from liberal columnist E.J. Dionne, the center-left Urban Institute and the *Huffington Post*.

Ryan and Murray also have continued to poke at each other about their football teams. "<u>#TBT</u> to when I gave @PRyan a signed @DangeRussWilson @Seahawks jersey. Care for a friendly wager on Sunday?" Murray tweeted a few days before the Seahawks faced off against the Packers for the American Football Conference championship. "Great <u>#TBT</u> @PattyMurray, but it will be all @packers on Sunday. I've got some WI Gouda and Gray's beer to back it up. You're on! <u>#GoPackGo</u>," Ryan retorted. To which Murray replied, "You're on, @PRyan. I'll bet some @ Rainier_Beer & cheese from @WSUPullman that the @packers can't handle the @Seahawks & the 12s -PM."

The teasing tweets came just a couple of hours after Ryan, in his capacity as the GOP's new tax-reform chief, killed off a tax-hike idea that had been gathering bipartisan support in the Senate as a way to keep money flowing for highways. "We won't pass the gas tax," he said flatly to reporters at a GOP retreat in Baltimore.

Like that football game, which sent the triumphant Seahawks to the Super Bowl, it was a reminder that sometimes it's impossible for both sides to win. But as Ryan and Murray demonstrated, every once in a while victory is achievable, even if every component is not a winner for your side.

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