CHAPTER 4

Legislating Deficit Reduction: Gramm-Rudman-Hollings, 1985 and 1987

Four years after Reagan’s 1981 budget and economic plan was enacted by the House and Senate, and with the country nearly a trillion dollars further in debt, members of Congress seemed to be in near panic about deficits. Reagan’s landslide victory in the 1984 presidential election had not created any new political alignment or solution for reducing the deficits. The voters made it clear that they cared much more about taxes than deficits. Reagan did not appear to be held accountable for the deficits and debt by the voters. Instead, he was rewarded for a recovering economy and his promise of low taxes. It was Democratic presidential candidate Walter Mondale who stumbled by acknowledging that he would raise taxes to reduce deficits. Both parties called the deficits a scandal but could not agree on how to reduce them. The president remained adamantly against any further tax increases and held tenaciously to his defense buildup. The Democrats wanted Social Security shielded from budget cutters and dug in their heels opposing further domestic program cuts. Out of this impasse came an “automatic” approach to force deficit reduction: set fixed deficit targets that would have to be met or impose mandatory across-the-board cuts in federal programs.

The Balanced Budget and Emergency Deficit Reduction Act of 1985, better known by the names of its sponsors as Gramm-Rudman-Hollings (GRH), was enacted with bipartisan support and was signed by the president in fall 1985. This chapter examines the Balanced Budget Act despite the fact that it did not make meaningful changes in long-term taxing and spending policy and despite the fact that it was revised in just two years and scrapped in five. Gramm-Rudman-Hollings is critical to the evolution of congressional budgeting for other reasons. First, it included the most important formal changes
in budget rules since the 1975 Congressional Budget Act. Second, adopted by bipartisan votes in the House and Senate, it raises questions about the impact of party on macrobudgeting. In fact, GRH was a largely symbolic effort by primarily Republican legislators to show constituents that they were serious about deficit reduction which was too politically risky for Democrats to oppose. Partisanship is revealed in caucus strategies and in final negotiations where party leaders tried to design budget-cutting rules to protect their favored policies. The new budget rules adopted in 1985 affected party leaders and members in both houses, particularly in the Senate where historic limitations on debate and amendment resulted. Finally, the Balanced Budget Act was a uniquely congressional initiative, in some ways catching the Reagan administration off guard, but it had consequences for the ongoing evolution of presidential-congressional relations in budgeting, particularly under divided government.

The Political Context

The 1984 Elections

The 1984 elections produced a landslide of historic proportions for Ronald Reagan. He defeated Mondale by more than 16 million votes, 59 percent to 41 percent. Mondale carried only his home state of Minnesota, losing the electoral vote 525–13. Although the public overwhelmingly disapproved of the big deficits, Mondale had not succeeded in convincing the public that the deficits were the most important issue, or that he offered the more acceptable solution to reducing them. Mondale's message had helped raise public concerns about the deficit during the campaign to nearly 20 percent in the Gallup Poll as worries about the economy waned. But by election time, exit polls revealed that only 12 percent felt that the deficits were the most important issue, and of this group, Mondale was the choice by only a 52 to 48 percent margin. In contrast, Reagan had succeeded in convincing the electorate that he would not raise taxes. Among those who cited taxes as the most important issue, Reagan carried the group by a whopping 80 to 20 percent.

The public wanted the deficits reduced in theory, but neither party's approach was supported in practice. Polls showed the public to be in favor more of defense cuts than of social program cuts, counter to the president's position; to be opposed to raising taxes; and to be strongly against cuts in entitlement programs. Republicans had succeeded in strengthening their reputation as the party against taxes, and Reagan used it to his advantage during the
campaign. The Democrats continued to have clear identification with the public as the party that protects Social Security, Medicare, and, to a lesser extent, domestic programs. But the inconsistencies in public opinion contributed to the murkiness in party positions on deficits. The positions taken by congressional parties in negotiating GRH reflected their attempt to protect the issues they “owned” with the public.

The 1984 elections did not result in major changes in the composition of Congress. Republicans lost two Senate seats but maintained control 53–47. Democrats lost fourteen seats in the House, but maintained a majority of 253–182, a margin of seventy-one seats, still comfortable compared to 1981. In the House, William Gray (D-PA) replaced Jim Jones as Chair of the House Budget Committee. On the other side of the rotunda, Robert Dole (R-KS) became Majority Leader, replacing Howard Baker, who had retired from the Senate. In the White House, the triumvirate of Edwin Meese, Michael Deaver, and James Baker was replaced by Don Regan who took over as chief of staff. Baker moved to the Treasury, swapping jobs with Regan. David Stockman continued as budget director but would resign in the summer of 1985. The changes would do little to affect the basic differences between House, Senate, and White House on taxes, domestic spending, defense, and entitlements.

Ronald Reagan stated that tax reform was the top domestic priority of his second term. But, in contrast to 1981, the president did not try to speed a comprehensive reform through Congress in 1985. Instead, he waited six months for the Treasury to develop a proposal and let the Congress work its will in a bipartisan fashion. The sweeping bill that finally passed by wide margins in 1986 contrasted with the partisanship that continued to characterize budgeting. Why comprehensive tax reform did not conform to the more prevalent partisan alignments is discussed below.

Continued Budget Stalemate in 1985

Despite his landslide victory, Reagan’s FY 1986 budget, like its recent predecessors, was pronounced by Democrats as “dead on arrival,” a mere “opening bid.” The assumptions in the president’s budget were suspect to congressional Democrats who relied on the more pessimistic numbers of the Congressional Budget Office. The administration seemed content to let Congress come up with a way to cut deficits as long as it was not at the expense of defense or through tax cuts.

Both parties generally agreed that the deficits needed to be reduced by at least $50 billion in FY 1986 from CBO’s projection of a deficit of over $225 billion. Senate Budget Committee Chair Pete Domenici and other Senate
Republicans continued to believe that real progress in curbing the deficits could not happen as long as entitlements were left off the table, despite the political risks involved. In April, in developing the Senate budget resolution, they got the president to endorse their plan which fixed Social Security and other entitlement COLAs at 2 percent for three years and guaranteed 3 percent real growth for defense while eliminating a host of domestic programs. This would bring the deficit for FY 1986 down to $175 billion.

It was a hard sell on the Senate floor. Republican leaders, led by Dole and SBC Chair Domenici, continued to bargain within the Republican caucus to win a majority. The final version of the Senate budget resolution contained a one-year freeze on COLAs and no real growth for defense, but it promised 3 percent real growth for defense afterwards. The final vote was high Capitol Hill drama, as the Republicans barely gained a victory. Senator Pete Wilson (R-CA) was wheeled on a gurney onto the Senate floor from his hospital bed to cast the tying vote so that Vice President George Bush could cast the deciding vote for a 50–49 victory. The COLA limits on Social Security unified Democrats. Only one of forty-six Democrats voted aye, and four Republicans opposed the resolution.

House Democrats, led by Claude Pepper and others, blasted the freeze on Social Security COLAs. Gray and the HBC reported out a resolution that matched the $50-billion-plus deficit reduction in FY 1986, but the resolution did so through steeper defense cuts while protecting COLAs. The House adopted the plan in late May by a vote of 258–170. Some 87 percent of House Republicans opposed the resolution, whereas 94 percent of Democrats supported it. With such different approaches to deficit reduction, the House-Senate conference on the budget resolution remained stuck well into July. President Reagan entered the negotiations, undercutting the Senate Republicans by agreeing to give up the COLA freeze in return for higher defense spending. Having “walked the plank” by going on record in favor of cutting Social Security benefits, Senate Republicans were furious with the president.

Conferees still could not reach agreement. On July 16, the House voted to waive the Budget Act and proceed with appropriations bills without a budget resolution, using the numbers in their respective versions. Finally, on August 1, conferees agreed on a plan that most resembled the House version. It contained neither significant new revenues nor any entitlement cuts that directly affected beneficiaries. Most of the claimed $55 billion in deficit reduction (CBO estimated the savings at only $39 billion) came from domestic spending cuts and no growth in defense. Few were happy with the compromise, but, eager to adjourn for Labor Day, both houses quickly adopted
the resolution. Both Senator Ernest “Fritz” Hollings (D-SC) and Senator Warren Rudman (R-NH) opposed the compromise, while Senator Phil Gramm (R-TX) and his staff began reworking a deficit reduction approach he had toyed with some years earlier.

Forging a Mandatory Solution

The Gramm-Rudman-Hollings Plan

Many Senate Republicans were dissatisfied with the compromise and were still smarting over the COLA vote that would be on their voting record forever. While most other members happily left town, Senators Gramm and Rudman were working independently with their staffs on more radical means of forcing deficit reduction. Gramm, who had helped shepherd Reagan’s program through Congress in 1981 when he was still a Democrat and in the House of Representatives, had subsequently been punished by the House Democratic caucus which stripped him of his seniority. He promptly resigned from the House, switched to the Republican Party, and won the special election for his seat. In 1984, he was elected to the Senate from Texas, replacing the retiring Republican John Tower. Gramm had introduced legislation to force a balanced budget as early as 1979. In 1981, he introduced a bill that required the president to “sequester” funds by making across-the-board cuts if there were a deficit. Rudman was frustrated with the Senate and morally outraged over the inability or unwillingness of Congress and the president to deal responsibly with the deficits.

Gramm had been working on this approach the longest, and when Rudman learned of his newest effort, he joined him. They recruited maverick Democrat Fritz Hollings of South Carolina to provide the appearance of bipartisanship. Hollings, who had chaired the SBC briefly after Senator Muskie had resigned, had long championed a budget “freeze” as a means to reduce the deficits. Their joint effort resulted in a plan that would set fixed deficit targets over the next five years and would require a mandatory sequester—across-the-board cuts—if Congress failed to meet those targets on their own. Congress would have five years to reduce the deficit to zero. The philosophy of the mandatory approach, as explained by the sponsors, was not actually to get to the point of mandatory cuts. Rather, the process was to create an alternative so unattractive that Congress would compromise to reach the targets on their own. If they did not, the automatic cuts were preferable to the huge deficits. When they introduced their mandatory deficit
reduction plan as an amendment to the debt ceiling bill on September 25, 1985, they did not anticipate the extent to which the issue would dominate Congress for the rest of the year.

The debt ceiling as must-pass legislation was the perfect vehicle for GRH. No one in the Congress wanted to vote for what was then an obscenely high debt limit of $2 trillion. As we saw in chapter 2, the debt limit had proven to be an effective vehicle for riders dealing with the budget since the government would default without additional borrowing authority. The Gramm-Rudman-Hollings plan would not only provide some political cover for voting for the debt ceiling but also turn it into a positive action to reduce future debt. The alternative for members was to vote for the debt and against balancing the budget.

The original GRH amendment exempted Social Security from the mandatory cuts but specified that half of the cuts would come from other entitlements and federal retirement programs. The other half would come from discretionary programs, including both domestic programs and defense procurement. The amendment called for changes in the congressional budget process to facilitate the new approach, advancing the timetable and increasing enforcement mechanisms. To eliminate manipulation of economic and budget forecasts, their amendment provided for a baseline and for estimates developed jointly by CBO and OMB. This was truly a congressional initiative. Although there had been some discussion of a phased-in plan to balance the budget, the administration was now without Stockman, and the new White House staff lacked budgetary experience and expertise. When Gramm called the White House on September 12 to inform them of his plan, they agreed to the concept without much concern for details.8

The proposal took the Congress and the country by storm. Although most members, Democrats in particular, were dubious of such a mechanistic approach, deficit reduction was resonating in the country, and the $2 trillion debt was so large that opposing its reduction would be difficult. This was particularly good politics for the Republicans, who only weeks before were stewing about how to get the debt extension through the Senate. Suddenly, House Democrats found themselves on the defensive for criticizing a plan to deal with the deficits. Dole seized the opportunity, holding the debt legislation hostage until the Gramm-Rudman-Hollings amendment could be voted on. He kept the Senate in session on Saturday and Sunday, October 5 and 6, to force a vote, only the eleventh Sunday session in history.9

The original plan focused only on spending cuts if deficit targets were not met. Minority Leader Robert Byrd (D-WV) and Senator Lawton Chiles (D-FL) came up with a Democratic substitute for GRH to get revenues into the
formula as well. Byrd said that the Democrats were “not prepared to bring the Sword of Damocles down on the poor, the young, the old.” His plan exempted means-tested programs and provided that if targets were missed, the deficiency would be made up equally from defense cuts, domestic cuts, and new revenues. Because of Republican opposition to the tax component, the proposal was defeated 59–40. Gramm-Rudman-Hollings was now the only choice. The plan had not had a subcommittee or committee hearing, had not been subject to economic or other analyses, and had not been marked up or revised by senators. Nonetheless, on October 9, it was adopted by a bipartisan vote, 75–24, with twenty-seven of forty-seven Democrats, including liberals such as Ted Kennedy and John Kerry, joining forty-eight of fifty-two Republicans. Even with the new deficit reduction scheme, the debt limit itself garnered only fifty-one votes the next day, with twelve senators not voting.

The House Response

House Democrats felt trapped. They too were frustrated with the deficits, but many detested Phil Gramm and thought that this mandatory plan was crazy. Speaker O’Neill fumed that GRH subverted the Constitution, but there was dissension in the Democratic ranks among younger members who felt that the leadership had failed to seize the initiative and had left them in an untenable position. Many were angry that the plan allowed Reagan to avoid all responsibility for deficits that they believed were largely his doing. As they analyzed the GRH proposal, opposition focused on five key points:

• Disproportionate domestic cuts. Critics believed that the Senate plan was unbalanced and unfair because the cuts would fall disproportionately on domestic social programs. There was scant sentiment to throw Social Security into the pot, but there was a sense among some that revenues and other exempt programs should be part of the mandatory solution.

• Potential damage to defense. The size of the cut that defense would take was in dispute, but some were worried that a sequester would be irrational, shielding slow-spending weapons procurement while endangering fast-spending categories such as personnel, operations, and maintenance. If the president declared a national security emergency to avoid mandatory defense cuts, it was not clear whether this would mean even bigger cuts in domestic programs.

• Incapacitating fiscal policy. The Senate-passed plan provided that
in the case of recession—negative or no real growth in GDP—for four consecutive quarters, the automatic cuts would be waived. Skeptics felt this was inadequate protection, however, and that GRH would hamstring the government’s ability to use discretionary fiscal policy to manage the economy.

- *Excessive power to the president.* Many feared that GRH transferred tremendous budgetary power to the executive. Only a decade after the Budget Act restored significant legislative influence in budgeting, this was seen as an unconscionable abdication. The problem was that nobody really knew from the original language exactly how much discretion the president would have.

- *Dubious constitutionality.* GRH raised several constitutional issues. Members questioned whether it was constitutional for one Congress to bind future Congresses. It was also not clear whether a process involving CBO and the General Accounting Office (GAO) could constitutionally force the president to cut spending. Other questions surrounded the severability of certain provisions; for example, if one provision was found unconstitutional, would other parts remain operative?

Despite the legal and policy concerns, it was the political calculations that shaped the House Democrats’ response. Representative Dick Gephardt (D-MO) and others convinced the top Democratic leaders not to bring the Gramm-Rudman-Hollings plan to a floor vote in its current form because they would lose. Instead, they would go directly to the Conference Committee and try to turn the measure to their advantage against the president and the Republicans. Since the separate debt limit extension vote in the House was eliminated in 1979, the House had already approved a new debt limit when it passed the budget resolution. On this basis, the leadership opted to go directly to conference with the Senate. In a strange reversal of the legislative process, the Conference Committee would be the first legislative committee to review the deficit reduction plan.

*The First Conference Committee*

By electing to go to conference directly, the Democrats conceded that some form of mandatory deficit reduction scheme would be enacted. The question was, Which party’s policy positions—the reason for deficit gridlock in the first place—would be advantaged and which would be disadvantaged by the solution? The first meeting of the conference committee convened in October
amidst hoopla, publicity, and emotion. The bulky committee, chaired by Senator Robert Packwood (R-OR), consisted of nine senators and thirty-nine representatives. Neither Gramm, Rudman, nor Hollings was on the conference, largely for reasons of seniority. Hearings of a sort were held for the first time, exploring constitutional issues, the role of CBO, the amount of power being ceded to the president, and the way the plan would actually work. Many Democrats remained openly hostile. House Judiciary Chair Peter Rodino wrote a letter pleading to protect legislative prerogatives in taxing and spending, noting, “It is troubling that Congress would so casually consider abdicating this power.”

New budget director James Miller III testified for the administration in favor of the approach but raised a number of potential problems that needed to be resolved. Secretary of Defense Casper Weinberger was less enthusiastic, however, warning a reporter, “We can’t have our defense and our security policy be a total prisoner of a rigid formula designed to reduce the budget.”

The conference broke down into four task forces after several weeks, focusing on economic issues, the sequestration process, revisions to the budget process, and constitutional issues. Some Democrats were working to ensure that the process would be so onerous as to force Reagan to accept a tax increase. Those on the fourth task force were concerned more with raising constitutional objections than with making the plan able to withstand a court challenge. Meanwhile, without a revised debt ceiling, the Treasury announced that after November 1, it would begin to divest securities in the Social Security Trust Fund to keep the government running. By the end of the month, the Republicans were ready to disband the conference and had come up with a revised version of their own, taking care of a number of technical flaws in the original Senate version. Democrats caucused to come up with their own deficit reduction bill.

The Democrats crafted a version of GRH that would hit defense procurement hard and protect a long list of social programs from the cuts. It altered the deficit targets and allowed fewer cuts if real economic growth slipped below 3 percent. On November 1, the House took its first vote on GRH, passing the Democratic version 249–180 in a strict party line vote. Even liberal Democrats who hated the plan voted for it to prevent approval of the Republican version. On November 6, the Senate passed their second iteration of GRH, introducing the Comptroller General of the GAO into the trigger process to certify the OMB/CBO figures and issue final sequester instructions to the president.

The main differences that remained surrounded the protection of Medicare; the FY 1986 deficit target; the question of whether to force an
immediate sequester; the technical but critical question of scoring on budget authority or outlays; and the severability of any unconstitutional portion of the new process. Overall, much had already been agreed upon. The House and Senate had already established the broad outlines and many details of a radical new mandatory deficit reduction plan, including an overhaul of the congressional budget process that included many of the recommendations of the 1984 Beilensen Task Force. These provisions of GRH were virtually ignored in the media where the focus was on the imminent threat of government shutdown and potentially draconian budget cuts.

Compromise and Enactment

A second Conference Committee was named and began meeting after the Senate vote. The debt limit was still the insurance policy guaranteeing that mandatory deficit reduction would ultimately pass. Congress had failed to pass a temporary debt ceiling extension by November 1 to prevent the disinvestment of Social Security trust funds, much to the chagrin of many members. Now the Treasury warned of a default on November 15 without more authority to borrow. The stop-gap continuing resolution that funded federal agencies also expired on that date, leading to the possibility of shutting down most of the government. The second conference proved no more able to resolve differences between the two houses than its predecessor. As the date for default neared, President Reagan prepared to leave for Geneva to meet Soviet Union leader Mikhail Gorbachev. Neither party wanted the government to undergo an embarrassing budgetary crisis while the president was at a summit conference. As a result, congressional leaders agreed on a temporary debt ceiling and continuing appropriation that would fund the government through the beginning of December when the president would be back. While he was gone, private negotiations among four key legislators would break the impasse.

The logjam was broken in late November in private meetings among Majority Whip Thomas Foley and Caucus Chair Gephardt from the House, and Finance Chair Packwood and Budget Committee Chair Domenici from the Senate. Away from the glare of publicity, the two sides offered several proposals and counterproposals that ultimately shaped the final compromise. First, and most critically, the Republican senators proposed that any sequester would be split 50–50 between domestic programs and defense. If the president canceled the defense cuts for national security reasons, then no cuts would be made in domestic programs. This solved the Democrats’ biggest problem with GRH: making sure that Reagan’s defense buildup
would take a big hit if a sequester occurred. Foley explained that the deal was like “the kidnapping of the only child of the President’s official family that he loves [the defense budget] and holding it in a dark basement and sending the President its ear.”

Pleased with this turn of events, Gephardt and Foley quickly agreed to the Republican offer and, in turn, conceded to the Senate on several other differences. The House agreed to drop its insistence that if one portion of the new process were declared unconstitutional, the entire process would fall. In addition, the House agreed to the Senate proposal involving GAO in the process to solve constitutional issues concerning the role of CBO. The Democrats were also successful at winning agreement for a deficit target for FY 1986 that would create the need for a limited sequester in March 1986 rather than wait until after the 1986 elections, as the Republicans wanted. The Democrats, who had been forced reluctantly into being party to the mandatory scheme, felt that they had gained significant leverage on the administration.

Facing yet another default and shutdown of government offices, conferees finally completed the compromise version in the wee hours of the morning of December 11. Later that day, both houses approved the Balanced Budget and Emergency Deficit Reduction Act of 1985 and extended the statutory debt limit to $2.079 trillion. During nine hours of sometimes emotional debate, proponents extolled the virtues of the plan, while critics such as Senator Moynihan called the bill a “suicide pact.” In the end, the Senate approved GRH by a vote of 61–31. Republicans voted for it by a margin of 39–9 while Democrats split 22–22. A few hours later, the House approved the conference report by a vote of 271–154; 153 Republicans and 118 Democrats voted for the bill. Despite the bipartisanship, many members had strong reservations about the new law. According to one lobbyist, members voted “in abject fear that they’re not going to be able to explain in a 20-second TV spot next fall why they voted against Gramm-Rudman.” Bad idea or not, its time had come.

Whatever misgivings he had, Reagan signed the bill the next day, noting that it was “an important step toward putting our fiscal house in order.” In his remarks signing the bill, he reaffirmed his commitment to continuing the defense buildup and his resolve against using tax increases to reduce the deficit. The president had been put in a difficult position. He had agreed in principle to the approach early on and needed the debt limit increase. It would be difficult to reverse course and veto the most prominent deficit reduction to emerge during his presidency. But many felt that the administration had been asleep at the switch, and they felt that they had not been
included in the critical negotiations in November. Rookie Budget Director Miller was preoccupied with putting the FY 1987 budget together. Only the Defense Department had raised strong objections. CBO Director Rudolf Penner reflected afterwards, “The Democrats were so extraordinarily successful in amending the bill that I was amazed that Reagan signed the bill at all. He had the grounds to veto Gramm-Rudman as anti-defense.”

Hours after the bill was signed into law, Representative Mike Synar (D-OK) filed suit in federal district court for the District of Columbia, challenging the constitutionality of the law. He would later be joined in the suit by a dozen other members and a public employee union. The next year, he would find his challenge supported by an unlikely ally—Ronald Reagan’s Department of Justice.

The Balanced Budget and Emergency Deficit Control Act of 1985

Gramm-Rudman-Hollings as passed by Congress and signed by the president maintained the basic framework devised by its sponsors in September. It established maximum deficit levels for both the president’s budget and the congressional budget of $171.9 billion in FY 1986, $144 billion in FY 1987, $108 billion in FY 1988, $72 billion in FY 1989, and $36 billion in FY 1990, and it required a balanced budget by FY 1991. If the estimated deficit in any of those fiscal years exceeded the target by more than $10 billion, the mandatory sequester process would take effect, requiring across-the-board cuts in the eligible categories. For FY 1986, which was then already underway, a special set of procedures, a different timetable, and a cap on the amount of the sequester were established. In subsequent years, a revised budget process would take effect.

Revising Congressional Budget Rules

The deficit reduction plan not only shielded the debt limit extension; it also provided the vehicle for a thorough revision of the 1974 Budget and Impoundment Control Act. Advancing the timetable, moving reconciliation to the beginning of the process, dropping the second resolution, and strengthening enforcement procedures were among the most important changes. The changes would mean further shifts in the responsibilities and relative power of authorizing, appropriating, and budget committees as well as party leaders. Table 4–1 shows the revised budget and deficit reduction timetable that went into effect in 1986 for
FY 1987 and beyond. Many of the key dates in budgeting were moved up, including the president’s submission of the budget, which would be due on Capitol Hill on the first Monday after January 3. Of particular importance to the way Congress did business were the earlier dates for enacting the budget resolution (April 15), for reconciliation (June 15), and for passing appropriations (June 30). The old May 15 deadline for authorizations, long an irritant to standing committees, was dropped. In an effort to force itself to meet the deadlines, Congress adopted language to prevent adjournment for the Fourth of July holiday if spending bills had not been enacted.

Some of the most important changes in the budget process were designed to strengthen the enforcement of totals—to strengthen those in charge of fiscal restraint at the expense of the forces of spending. In its first decade, the budget process had often been circumvented, ignored, or thwarted by accounting gimmicks, rosy-scenario economic assumptions, and other tricks. GRH tried to close some of the loopholes:24

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<td>To Be Completed by</td>
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<td>President submits budget</td>
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<td>CBO reports to Congress</td>
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<td>Committees submit views and estimates to Budget Committee</td>
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<td>Senate Budget Committee reports budget resolution</td>
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<td>Congress passes budget resolution</td>
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<td>House Appropriations Committee reports appropriations bills</td>
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<td>Congress passes reconciliation bill</td>
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<td>House passes all appropriations bills</td>
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<td>Initial economic, revenue outlay, and deficit projections made by OMB and CBO</td>
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<tr>
<td>OMB and CBO report tentative contents of sequester order to GAO</td>
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<td>GAO issues deficit and sequester report to the president*</td>
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<td>President issues sequester order</td>
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<td>Fiscal year begins, and sequester order takes effect</td>
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<td>OMB and CBO issue revised projections based on subsequent congressional action</td>
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<td>GAO issues revised sequester report to president*</td>
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<td>Final sequester order becomes effective</td>
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<td>GAO issues compliance report on sequester order</td>
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Source: Balanced Budget and Emergency Deficit Control Act of 1985

*The role of the GAO in instructing the president to make budget cuts was ruled unconstitutional in 1986.
Totals and subtotals in the budget resolution were made binding; previously they had been targets.

To enable the Budget Committees and party leaders to better monitor compliance, committees were required to allocate outlays, budget authority, entitlements, and credits among its subcommittees. These so-called 302(b) allocations were then subject to enforcement on the floor; any legislation causing any subtotal to be exceeded would be subject to a point of order.

No legislation providing new budget, entitlement, or credit authority could come to the floor until a budget resolution had been passed. However, bills taking effect in the subsequent fiscal year were exempted, as were appropriations bills, if a budget resolution had not passed by May 15.

No budget resolution would be in order on the floor if it exceeded the maximum allowable deficit under GRH.

In the Senate, waivers of these restrictions would require a three-fifths vote. In the House, waivers of conference reports, budget resolutions or reconciliation bills that exceeded the targets must also receive a three-fifths majority.

Another key change was the adoption of the so-called Byrd rule in the Senate. Named after its sponsor, Senator Robert Byrd (D-WV), the Byrd rule prohibited extraneous materials from being attached to reconciliation bills. As reconciliation had become central to the budget process and to deficit reduction, it had become increasingly attractive as a vehicle for nongermane “Christmas tree” amendments. Byrd argued that:

> We are in the process of seeing . . . the Pandora’s box which has been opened to the abuse of the reconciliation process. That process was never meant to be used as it is being used. There are 122 items in this reconciliation bill that are extraneous.

The rule was originally adopted as an amendment to the reconciliation bill in October 1985. But since that bill was not formally adopted until April 1986, the Byrd rule was reaffirmed by a Senate resolution in December 1985. It would mean that one of the most critical must-pass bills in the budget process could not be used to get around deadlock on other measures. Although adopted only by the Senate, its provisions would affect the House since any nongermane amendments added in conference would be subject to a point of order on the Senate floor.
Gramm-Rudman-Hollings moved to make the budget more comprehensive with one notable exception: Social Security. This highly popular program was moved off budget and exempted from any across-the-board cuts, even though its trust fund totals were still included as far as calculating the deficit (which by 1985 had sizable surpluses tending to make the deficit smaller). Other programs, such as federal credit activities in the form of direct loans and loan guarantees, were now formally included in the budget.

The first formal revision of the Budget Act in eleven years strengthened and further centralized budgetary decisions. Budget Committees and the party leaders had new rules to increase their ability to constrain the actions of the authorizing committees and appropriators. One senior staff member observed:

> While nobody was paying much attention, the Budget Committees wrote into Gramm-Rudman their dreams of the ages. They adopted virtually all of the reforms of the Beilensen task force. This was an extraordinary coup for the Budget Committees—particularly the Senate Budget Committee, in expending and strengthening their powers.27

Despite these apparent changes to strengthen enforcement, program advocates and appropriators had proven innovative and clever in the past at avoiding discipline and would continue to do so.

**The Deficit Reduction Process**

The bipartisanship that had occurred in passing the Balanced Budget Act briefly concealed the pervasive partisanship that characterized budgeting in Congress by the mid-1980s. For shock value, House Democrats had wanted cuts in the FY 1986 budget to take place immediately after GRH was enacted, and they wanted to blame the Republicans for any pain and misery that resulted. In conference they consented to wait until March 1986 and to limit the maximum sequester to $11.7 billion. As a result, the legislation spelled out a process for FY 1986 that was separate from that for subsequent fiscal years. Because seven months remained in the fiscal year, only seven-twelfths of the “excess deficit” could be sequestered up to the cap.

The mandatory deficit reduction process for other fiscal years worked as follows. A joint CBO/OMB report would be issued in August, estimating the deficit for the coming fiscal based on assumptions specified in the law. The Comptroller General was then required to review the data, assumptions, and methodologies of the report, making a final determination of the deficit. If an
excess deficit existed according to GAO, the president was required to issue a sequestration order by September 1. GRH allowed the president no flexibility in determining cuts except for a limited number of defense accounts in 1986. Under the new rules, Congress had one month to find a way to eliminate the excess deficit. OMB, CBO, and GAO would then recalculate the deficit. If Congress could not agree on an alternative, or if GAO reported by October 10 that an excess deficit still existed, the president would be required to issue a final sequester order by October 15. The Comptroller General would then report to Congress on compliance with the order by the middle of November.

With so much at stake, the method for calculating and allocating the sequester order that was written into the formula was extremely important. Congress had ultimately agreed to keep score on the deficit using outlays, not budget authority. GRH introduced the concept of “budgetary resources” to categorize budget authority, entitlements, and borrowing authority upon which outlays are made. Therefore, the sequester order had to reduce budgetary resources sufficiently to produce the desired reduction in outlays.

**Program Exemptions**

Half of the mandatory cuts would come from domestic programs, but much of the negotiation over GRH had been over what programs to exclude from the process. It was a long list. While items such as interest on the national debt obviously could not be cut, Democrats had succeeded in shielding a number of programs from the GRH scalpel. Exempt programs included:

- interest
- Social Security
- railroad retirement
- veterans’ compensation and pensions
- Aid to Families with Dependent Children (AFDC)
- supplemental security income (SSI)
- women, infants, children (WIC)
- child nutrition
- food stamps
- Medicaid

In addition, special rules were written for making the reductions in unemployment compensation, federal pay, student loans, child support enforcement, foster care and adoption assistance, and crop subsidy programs.
Programs with COLAs could be reduced only to the extent of that year’s cost of living increase. But further limits on automatic cuts were written into law for Medicare, veterans’ medical care, community health, migrant health, and Indian health facilities and services. Medicare cuts were limited to 1 percent in FY 1986 and 2 percent in subsequent years.

The other half of the across-the-board cuts were to come from defense. Those reductions would include some savings realized by adjusting the military retirement COLAs. The remaining defense cuts would be calculated by computing a fixed percentage reduction in defense outlays from new budget authority and unobligated balances. Outlays from existing budget authority, about 40 percent of total budget authority, were exempted from sequestration.

Would it work? Gramm-Rudman-Hollings was designed to end the deficit stalemate by providing punitive consequences for inaction by Congress and the president. On paper, House Democratic leaders and Senate Republican leaders had a speedier and tougher budget process with more enforcement muscle. The first test of the new process was the “dry run” of sorts on the FY 1986 budget. It would begin a session in which GRH would dominate the legislative process.

Mandatory Deficit Reduction in 1986

Reducing the FY 1986 Deficit

The second session of the 99th Congress began with more bad news about the deficit. Projections showed that it would exceed $220 billion, nearly $50 billion above the GRH target. CBO and OMB each reported their version of the $11.7 billion in cuts by January 1986, filling an entire volume of the Federal Register. The relatively minor differences between the two reports were resolved by GAO. On February 5, a Republican resolution to force Congress to make cuts necessary to avoid the mandatory cuts was defeated, guaranteeing that the new deficit reduction process would go into effect.

The mandatory cuts for FY 1986 were calculated with agonizing detail using the complicated formula. The calculations revealed how much of the federal budget had been taken out of the mandatory process. When all of the exemptions and special rules were applied, only 20 percent of outlays were subject to sequestration, hardly an “across-the-board” process. The cuts fell heavily on defense personnel, operations and maintenance, and procurement and research accounts. On the domestic side, the biggest cuts fell on inde-
ependent agencies—education, health, housing, and natural resources programs. The percentage cuts were 4.9 percent in the eligible defense accounts and 4.3 percent in unprotected domestic accounts.

These cuts were much less severe than what would have been needed to reach the $172 billion target. CBO projected the FY 1987 deficit at $167 billion, $23 billion above the $144 billion target. CBO estimated that if Congress could not reach the target, cuts of 6.2 percent in defense and 8.4 percent in domestic accounts would be necessary. If the economy did not perform as expected, the deficit would rise to $194 billion, requiring cuts of 14.2 percent in defense and 20.9 percent in domestic programs.\(^{31}\)

On the legal front, Synar’s suit was decided in federal district court on February 7. The three-judge panel ruled that the automatic trigger mechanism was unconstitutional because the role of GAO violated separation of powers.\(^{32}\) Because the case would be appealed to the U.S. Supreme Court, the decision had no immediate impact on the 1986 sequester or the new budget process rules under which the FY 1987 budget was being considered. It simply added to the doubts about the viability of the process among committee members struggling to meet the new February 25 deadline for views and estimates in order to pass a budget resolution by mid-April. On March 1, the sequestration took place, cutting $11.7 billion from the programs that were not exempted from the process.

\textit{Trying to Meet the New Timetable}

The enactment of GRH was intended to signal to the public Congress’s determination to do something about the deficits. As 1986 began, most members seemed serious about making the system work. In March, the Senate voted 61–33 not to exempt additional loans for farmers from the Balanced Budget Act’s restrictions.\(^{33}\) On March 19, Senate Republicans reported a budget resolution that met the target deficit in part through some new revenues, bringing a rebuke from Reagan. The SBC’s action would be the only significant deadline in the new budget process that would be met that year.

April 15 passed without the enactment of a budget resolution by either house. The Senate finally passed a bipartisan resolution on May 2, despite White House opposition to the taxes. They projected the deficit exactly at the GRH target of $144 billion. Following the Senate, the House passed a resolution with a deficit of $137 billion, achieving that figure primarily through defense cuts. President Reagan called the House budget a “radical anti-defense” plan and promised to oppose it. GRH had proven to be a mixed blessing for the president and a formidable weapon for congressional leaders,
just as many Democrats had hoped. The 50–50 split between defense and domestic programs meant that House Democrats could get away with greater cuts in defense because the cuts were not as deep as they would be with a sequester. Reagan could use the veto at his own peril. House leaders, still fearing the tax issue, would not consider new revenues without some support from the White House. Despite the new timetable, the budget process was again stalled.

Lacking a budget resolution, the June 15 deadline for reconciliation was missed, and it was obvious that no spending bills would be passed by June 30. The prohibition against adjourning for the Fourth of July holiday was quietly waived on June 19. House and Senate conferees finally reached an agreement on the budget resolution on June 26, reporting a budget with a deficit of $143 billion based on spending of $995 billion and revenues of $852 billion. Reagan had won on taxes but lost on defense. No significant new taxes were included in the budget, but defense had been cut $28 billion below the president’s request. As members left Washington, most of the work remained: reconciliation, another extension of the debt limit, and spending bills. Before the members returned, the Supreme Court would determine the constitutionality of the deficit reduction process.

Impact of New Budget Rules

Despite the fact that the accelerated timetable was not working, Gramm-Rudman-Hollings was having a significant effect on how Congress conducted its business. The Appropriations Committees found themselves under significantly greater constraints than ever before. Under the 302(b) allocations to subcommittees, the full committees could not adjust subtotals internally to keep within the overall cap. This greatly increased dissension among committee members during markup. Scoring on outlays rather than budget authority also impacted the Appropriations Committees, since appropriations would be subjected to a point of order on the floor if they exceeded outlay allocations. This rule affected defense appropriations in particular because of the differences in the fast- and slow-spending programs. The Budget Committees and party leaders had more control over the committees with the 302(b) allocations, and they made it more difficult for subcommittee chairs to override cuts made by the Budget Committees.

The Balanced Budget Act affected the comprehensive tax reform package that Congress had been working on since 1985. The tax reform process presented a remarkable contrast to the budget process. Through a bipartisan process that included the House, Senate, and White House, tax reformers
were able to agree on the most sweeping overhaul of the tax code in decades. This case is recounted in detail elsewhere, but several facets are relevant to the analysis of congressional budgeting. Tax reform avoided the normal partisan divisions when Democrats agreed to not use it as a means to increase revenues to reduce the deficit. All agreed that the reforms would be “revenue neutral.” Party leaders were able to maintain this stance during markup because of the new provisions of GRH.

The Balanced Budget Act did not specifically provide rules requiring that amendments must be “deficit neutral.” But that was the effect of the super-majorities required to waive provisions combined with other requirements in the original Budget Act and the new law. Section 303(a) subjected amendments to a point of order unless the budget resolution was passed, and section 311 provided that no bill could reduce revenues or increase outlays. This combination of provisions had the effect of requiring “offsets” in any amendment, either in committee or on the floor. That is, when considering the Tax Reform Act, any provision that reduced revenues had to make that revenue up someplace else. This requirement reduced the number of amendments and enforced the concept of revenue neutrality. GRH had added another tool to the arsenal of those trying to impose fiscal restraint in Congress.

The Constitutional Flaw

The Balanced Budget Act, a response to the deficit stalemate between Congress and the president, raised the constitutional issue of separation of powers. This doctrine draws indistinct boundaries that have always allowed one branch to participate in the affairs of the other to some extent. In the 1970s, the U.S. Supreme Court followed a more relaxed interpretation of separation of powers. However, in the case of INS v. Chadha (1983), the Court adopted a more formalistic and literal interpretation of separation of powers in striking down the legislative veto. This same constitutional interpretation was used by the Court on July 7, 1986, when it ruled in Bowsher v. Synar that Gramm-Rudman-Hollings violated separation of powers. The ruling was restricted to the narrow question of the use of GAO as part of the trigger mechanism.

Both branches had to some extent anticipated constitutional questions surrounding the automatic trigger mechanism. A fallback procedure was added to the law in case the automatic trigger provisions were invalidated. It provided that the joint report of OMB and CBO would be submitted to a Temporary Joint Committee on Deficit Reduction instead of to the
Comptroller General. This committee, consisting of the entire membership of the two Budget Committees, would be required to report a joint resolution in five days to both houses. Congress then was required to “certify” the cuts by voting on the resolution under special rules. That resolution, rather than the GAO report, would serve as the basis for the president’s sequestration order.

In February, the three-judge panel of the DC District Court found the trigger mechanism unconstitutional because Congress had the power to remove the Comptroller General. In their opinion, Congress could not retain the power of removal of an officer performing executive functions. The court declined to rule on the plaintiffs’ argument that GRH delegated excessive power to the executive branch since it was unconstitutional on other grounds. In obiter dicta, however, the judges concluded that the delegation made by the Balanced Budget Act was constitutional.39

The District Court’s ruling was automatically appealed under a provision in the law that provided expedited review by the Supreme Court. By a 7–2 vote, the Court upheld the ruling of the lower court and concluded that the mandatory cuts imposed in March were unconstitutional. The majority opinion, written by Chief Justice Warren Burger, concluded, “The structure of the Constitution does not permit Congress to execute the laws; it follows that Congress cannot grant to an officer under its control what it does not possess.” In concurring with the opinion, Justices Stevens and Marshall wrote that GRH was unconstitutional because it delegated excess power to the Comptroller General to make national policy. In dissenting opinions, Justices White and Blackmun argued that the majority imposed an overly rigid interpretation of the separation of powers doctrine. They questioned striking down a critical federal enactment in order to preserve a sixty-five-year-old removal provision that was never exercised and that might itself be unconstitutional.

Repairing the Mandatory Trigger for Deficit Reduction

Avoiding the Sequester in 1986

When Congress returned from recess, Senators Gramm, Rudman, and Hollings were determined to repair the constitutional problem with the automatic trigger mechanism. Once again, the debt limit would be the vehicle for their efforts. Their initial solution was to eliminate the power of Congress to remove the Comptroller General. This option was blocked by opposition from Rep. Jack Brooks (D-TX), Chair of the House Government Operations
Committee which had oversight responsibility for GAO. Congress did move immediately on one front. Using a modified version of the fallback procedure, on July 17, by large majorities both the House and the Senate voted to certify the March 1 cuts that had been struck down by the Court.

When the Senate reported the debt ceiling extension, proponents had found a different “fix”: empowering OMB alone to determine the spending cuts needed to meet the deficit targets. Under their proposal, GAO would still participate in formulating the estimates, but OMB would issue the final report to the president. The president’s budget office would be limited in its ability to make changes in the report except to reflect changes in regulations or actions of Congress. The date for the president’s budget, which had proved burdensome, would be moved back to February from the earlier date, and a provision was added to return to the original procedure if the Comptroller General were made an executive branch official. The measure was grudgingly accepted by the White House because of the restrictions on OMB, and it passed the Senate on July 30 by a 63–36 vote.

The repairs to GRH ran into trouble in the House, however, where majority Democrats were content to use the backup procedure. Members wanted to defer action until the August deficit estimates were released. Despite the attempt of Gramm and his allies to block the debt ceiling extension, a temporary extension without a new trigger mechanism was passed. The August deficit reestimates by CBO and OMB brought the usual bad news. On August 20, taking into account deficit savings already proposed by Congress, CBO projected the deficit at $170.6 billion, and OMB projected it at $156.2 billion. Without GAO to reconcile the differences, congressional leaders simply took the average: $163.4 billion. Taking advantage of the fact that a sequester would be necessary if the deficit exceeded the target by more than $10 billion, Congress simply decided to shoot for a $154 billion deficit rather than the $144 billion target. That meant that they had to come up with an additional $9.4 billion in cuts or new revenues to avoid a sequester.

Members wanted to avoid across-the-board cuts in the FY 1987 budget at all costs. By September, Congress had still not approved a reconciliation bill or any appropriations bills. An omnibus bill that reached the $154 billion deficit target was prepared to try to avoid sequestration. Revenues were increased by $2 billion by proposing the sale of government assets such as Conrail, actions that would actually increase the deficit in future years. Another $2 billion in savings was claimed by enhanced enforcement by the Internal Revenue Service. Representative George Miller (D-CA) deadpanned, “We’re fine-tuning the smoke and mirror proportions—too much of one blinds you; too much of the other burns you.”
Congress missed the October 1 deadline for the deficit reduction package. Despite the new timetable, the critical budget decisions for FY 1987 were made in late-night sessions in early October, after the fiscal year had begun. Finally, a budget with a deficit of $151 billion was passed, within the GRH target range. Gramm and his allies tried unsuccessfully to block passage of a permanent debt limit bill that did not repair the constitutional flaw. They did succeed in limiting the extension to six months, however, so that in 1987, proponents would have another chance to renew the mandatory provisions.

The 1986 elections ended six years of Republican control of the Senate. When the 100th Congress reconvened in January 1987 to restructure GRH and reduce deficits, Democrats would control both houses of Congress.

Gramm-Rudman II: Reaffirming Mandatory Deficit Reduction

Missing the Original Targets

By the summer of 1987, deficit projections continued to expand. The FY 1988 deficit target under GRH was $108 billion. By mid-1987, projections showed that the deficit would go as high as $180 billion, making $108 billion virtually unreachable. The FY 1986 deficit, on which the five-year targets were based, had turned out to be $50 billion greater than expected, even with the limited sequester. Even the most ardent deficit hawks acknowledged that in addition to restoring the mandatory reduction process, the targets would have to be revised.

The debt limit was expiring, and Senate Republicans did not want to authorize more government borrowing without doing something about reducing the deficits. While the administration had supported GRH in 1985, two years later they were urging Congress to send the president a clean debt limit. Increasingly through the 1980s, the Treasury was forced to take extraordinary actions to prevent default, from postponing auctions of Treasury notes to disinvesting in Social Security trust funds.

Democrats and even many Republicans had little sympathy for Reagan’s entreaties in 1987. The president had suffered a decline in public support as a result of Iran-Contra revelations. More central to the budget debate, members were exasperated with the president’s continued assault on their institution. He continued to argue for a balanced budget amendment as the centerpiece of his proposed “economic bill of rights,” even though the budgets he submitted to Congress were not in balance.22 In July, Congress enacted another short-term extension and attempted to restructure mandatory deficit reduction.
Revising the Balanced Budget Act

Although the partisan motivations in 1987 were the same as they had been in 1985, the political calculus seemed to have changed. Little was said by proponents about the glaring failure to achieve the original five-year targets after only two years. Democrats were pushing stricter deficit targets than Republicans because of the impact on the defense budget. Democrats wanted to force the administration to compromise on new taxes in order to protect defense. The White House actively opposed many of the revisions being proposed on Capitol Hill.

In August, both OMB and CBO revised their January forecasts and showed deficits rising sharply through 1992 without major changes in policy. A sequester to reach the FY 1988 target alone would devastate both defense and domestic discretionary programs. Despite the accelerated timetable, GRH had made it irrational for members of Congress to make any tough choices before they saw the August estimates on which any sequester would be based.

In late September, after secret negotiations by a small group of members, the conference committee reached a compromise on the GRH reaffirmation act. The bill passed the House on September 22 by a vote of 230–176. It passed the Senate the next day by a margin of 64–34. The administration seriously considered a veto but reluctantly signed Gramm-Rudman-Hollings II into law primarily because it included the twenty-month debt extension that the president desired. This would leave the problem of the next debt ceiling to the new president in 1989.

New Targets and Budget Rules

The Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (GRH II) repaired the constitutional flaw by giving OMB responsibility for reporting deficits that exceeded the targets and for determining the actual cuts under the revised formula. It revised the budget timetable as well. OMB would report any excess deficit by August 25, and the final order to make cuts would be issued on October 15 if no legislation had been enacted to reach the targets. The date for a balanced budget was moved from 1991 to 1993 with the following annual deficit targets: for FY 1988, $144 billion; for FY 1989, $136 billion; for FY 1990, $100 billion; for FY 1991, $64 billion; for FY 1992, $28 billion; and for FY 1993, zero deficit. The $10 billion margin of error was allowed for all years with the exception of 1993.

While the cuts continued to be divided equally between defense and domestic programs with certain programs exempted, GRH II gave the president
greater flexibility in determining where defense cuts would come. Under the new provisions, he could exempt all or part of cuts in personnel if an equivalent amount were cut in weapons procurement. In the face of the budgetary gimmicks and tricks used to reach the deficit target in 1986, GRH II put new limits on what could be counted as budget savings. Receipts from the sale of loans could not be counted; nor could Congress count savings by moving the date of a federal pay increase by a couple of days so that it would fall in the next fiscal year, as they had done the year before. Congress was now required to use a single set of economic and technical assumptions in an attempt to reduce the practice of using the most optimistic forecasts, or using different estimates in the same resolution as had been done previously. The revised version of mandatory deficit reduction expanded the baseline on which cuts would be imposed, allowing for inflation and increased program utilization.

GRH II also strengthened enforcement procedures in the budget process. It reinforced the Byrd rule against extraneous materials in reconciliation bills and restricted items that increase spending in future years in those bills. New rules made it tougher to waive the provisions of the process by requiring a sixty-vote majority rather than a simple majority in a number of instances.

The Crash and the Budget Summit

Black Monday

The financial markets were distressed at the abandonment of original targets and the acceptance of continued large deficits. The market had been dropping since August, but on Monday, October 19, 1987, three weeks after the new deficit law was signed into law, it crashed. The Dow Jones Industrial Average, the most common barometer of stock prices, dropped a then-unprecedented 508 points. A record 604 million shares were traded as prices plummeted in a wave of panic and computer-programmed selling. The index lost 23 percent of its value in a single day, far worse than the 13 percent drop in the famous crash of October 1929 that helped precipitate the Great Depression. Between August and October, the market lost 36 percent of its value, nearly $1 trillion in wealth.

Congress and the White House were sobered by the crash. Both branches quickly announced the formation of a budget summit to take more meaningful action to reduce the deficit. Congress had yet to clear spending bills and reconciliation for FY 1988. The summit would propose a two-year plan covering both FY 1988 and FY 1989, the last budget of the Reagan era.
The Summit Agreement

Despite the fears raised by the crash, none of the partisan cleavages over defense, taxes, and entitlements were resolved. It took several weeks for the summit even to get organized and for the imminent prospect of $23 billion in automatic cuts under GRH to force an agreement. On November 20, the day the automatic cuts took effect, congressional and administration negotiators arrived at the outlines of a compromise package. They agreed on a deficit reduction package of $30 billion for FY 1988 and $46 billion for FY 1989 comprising both spending cuts and new revenues. Reagan had finally agreed to $23 billion in new taxes as part of the solution.

Yet even with the outline in place and with adjournment only days away, a final compromise was still difficult to reach. Last-minute disputes about Medicare cuts delayed final action. The deficit reduction package was contained in two bills: an omnibus appropriations bill and a reconciliation bill that included the revenue increases. The spending bill included all regular appropriations for the second year in a row. It was a massive 30-pound, 2,100-page document that provided over $600 billion to fund the majority of government programs. In this case, majority party leaders in the House failed to satisfy many of their caucus members because the bill included $14 million in aid to the Contras in Nicaragua. This amount was trivial in terms of the size of the bill but was politically explosive for Democrats. On December 22, the budget package narrowly passed the House by a margin of 209–208. Divided Democrats narrowly voted against the final version 116–128. The Senate passed the bill easily, 59–30.

The reconciliation bill had a slightly more comfortable margin in the House and more typical partisan split, passing on December 21 by a margin of 237–181. Most of the new taxes it mandated were on corporations. The Senate followed suit in the early morning hours of December 22, sending it to the president. The summit agreement also included a preview of deficit reduction strategies to come: appropriation caps on domestic and defense spending. The Omnibus Budget Reconciliation Act of 1987 provided separate two-year limits on defense and discretionary domestic appropriations that would serve as the basis for committee allocations in the next year’s budget resolution. In the Senate, it would take a three-fifths vote to override those caps.

After the scare of the market crash, a two-year budget pact had been reached, but many members remained dismayed at the chaotic budget process and the continuing problem of the deficits.
Conclusion

Congressional budgeting continued to evolve, often in a topsy-turvy fashion, through the mid- to late-1980s. One of the most important consequences of GRH was the rules changes to further centralize control of budgeting and the enforcement of agreements once reached. Under the new rules, the authorizing committees and the appropriations committees faced more constraints and were subject to specific allocations. House and Senate leaders were able to enforce totals more effectively through the Budget Committees and Rules Committee. Reconciliation was institutionalized. Rules were particularly enhanced in the Senate. The Byrd amendment introduced germaneness requirements on reconciliation bills. Revisions to the Budget Act in 1985 imposed the most restrictive rules on debate in Senate history, effectively prohibiting filibusters on any legislation creating the congressional budget. The provisions requiring offsets made it harder for members or committees to push pet spending projects or tax breaks.

Had party differences been reduced and partisanship become less characteristic of macrobudgeting in this period? Mandatory deficit reduction had a bipartisan face with a Democrat and two Republicans as its cosponsors, and it attracted bipartisan support in both the House and the Senate. In the Senate, minority party members continued to participate in shaping budget legislation. Gramm-Rudman-Hollings II in 1987 was supported by a majority of both parties. The Tax Reform Act of 1986 was formulated by members of both parties and adopted on a bipartisan vote. The budget summit agreement in 1987 sharply divided House Democrats.

Even with some blurring of positions on deficits and occasional bipartisan cooperation, a strong case can be made that underlying partisanship remained undiminished. All three House votes and two of three Senate votes on budget resolutions from 1985 to 1987 were nearly party line votes. Through the entire 1980s, all Senate votes on the budget resolutions could be classified as party votes except in 1983 and 1986. Senate party divisions, unlike in the 1970s, became more similar to House voting patterns for the most part. Some bicameral differences persisted, however. In general, senators of both parties were more willing to compromise on key budget issues. Some Senate Republicans were willing to include tax increases in deficit reduction packages. Some Senate Democrats were willing to consider restrictions to entitlement growth. This was still much less the case in the House.

Being on the side of deficit reduction was politically important to members of both political parties. Gramm-Rudman-Hollings was intended to symbolize to the public a commitment to address the budget deficits, making oppo-
sition to the plan politically dangerous. Public opinion polls showed that by fall of 1985, 22 percent of respondents said that the deficit was the most serious problem facing the nation, making it the number one concern at that date. Although public concern seemed to follow rather than lead congressional action, it was extremely difficult for members to vote against the Balanced Budget Act despite the concerns of members of both parties. Interviews with members and staff suggest that much of the support was insincere, particularly among Democrats. In the case of comprehensive tax reform, bipartisan support was more genuine. The law made sweeping changes to the tax code, but it did not tap into the divisions of macrobudgeting. The decision to make tax reform legislation “deficit neutral” changed the nature of the issue by taking tax cuts and entitlements cuts off the table.

Changes in congressional budgeting in this period also continued the evolution of presidential-congressional relations. While GRH reflected policy and electoral concerns over chronic deficits by members of both political parties, its adoption was also shaped by Democrats’ opposition to Reagan’s tax cuts and defense buildup and by Republicans’ desire to restrain domestic spending and prevent tax increases. Both sides succeeded in shielding some of their policy priorities in GRH, particularly by keeping taxes out of the formula for Republicans and by exempting most entitlements for Democrats. Perhaps the main shortcoming in the mandatory scheme for the Reagan administration was the potential vulnerability of defense spending. The administration may have underestimated that threat, but the president was also under pressure to look as if he were doing something about the deficits. The administration regained important flexibility in imposing mandatory cuts in defense in GRH II, but the mandatory deficit reduction plan continued to serve as an institution that congressional Democrats could use to try to force the president to make concessions or threaten reductions in defense totals.

The growing regularity of budget summits during this period suggests that divided government in the 1980s affected the national budget process and the way Congress and the president negotiated budget policy disputes. Extraordinary resolution became the rule rather than the exception in presidential-congressional budgeting. In this regard, GRH is perhaps the most extraordinary means to resolve legislative-executive budget disputes ever devised.

Twenty years later, the Balanced Budget Act largely appears to have been a budgeting gimmick that failed. The most obvious failure was the fact that the initial targets had to be revised after only two years, and the process was abandoned after five years. It created incentives for Congress to avoid
sequestration and exacerbated the use of budgetary tricks and illusions. For example, the $10 billion cushion on the targets was simply used to allow a larger deficit. Because only August budget forecasts would trigger sequestration, there were no reasons to make hard budget choices before that date, as economic and technical changes could simply wipe out any deficit savings. To manipulate budget totals, Congress proposed selling government assets, advancing revenue collections, and delaying outlays. All of these actions actually increased future deficits.\(^{47}\)

On the other hand, even after GRH was abandoned, many of the less publicized rules changes left Congress with greater centralized control of decisions on budget totals, a single binding resolution at the start of the process, an institutionalized reconciliation process, stronger enforcement provisions once agreements had been reached, and more stringent limitations on debate and amendment, even in the Senate. When the deficits began rising again under the Bush administration several years later, Congress would finally abandon the mandatory approach and look to new rules changes to strengthen its position in budgeting.