Parties, Rules, and the Evolution of Congressional Budgeting

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CHAPTER 6

Clinton and the Democratic Deficit Reduction Plan, 1993

After twelve years of divided government, would unified control of Congress and the presidency under the Democrats facilitate solving the deficit problem? Although Bill Clinton had promised during the campaign to cut the deficit in half by 1996, it was his unrelenting focus on the economy, not deficit reduction, that got him elected president. Yet even before his inauguration as the 42nd President of the United States, the familiar scenario of growing budget deficits demanded Clinton’s attention. Budget projections in late 1992 showed the deficits hovering at $300 billion and, if nothing were done, heading past $500 billion by the end of the century. The new administration, eager to reform health care and welfare, was forced to confront this problem first; deficit reduction would again drive national politics in 1993. Congress was battle-hardened from the budget wars. It had acquired through the Reagan and Bush administrations significant capacity in budgeting with rules and procedures that allowed party leaders to formulate alternatives and to negotiate with the administration. Would congressional leaders cede leadership back to the president or be willing to take on the unpopular choices needed to reduce the deficit?

This chapter explores the adoption of the Omnibus Budget and Reconciliation Act of 1993 (OBRA-93). Clinton, like Reagan in 1981, would attempt to seize the initiative to make significant policy changes in the first six months of his presidential term. Democratic leaders would work with the president in trying to build majorities for a number of unpopular tax increases and spending cuts, and they would succeed by the narrowest of margins. How would the congressional institutions and budget rules that had undergone so much change since the end of the Carter administration affect budget choices in 1993? Would a return to unified party control of government increase, decrease, or have no effect on congressional partisanship? What was the impact of the Democratic budget plan, and what was its political legacy?
Deficit Crisis Redux

What Happened to the 1990 Deficit Savings?

The Omnibus Budget and Reconciliation Act of 1990 (OBRA-90) claimed savings of nearly $500 billion in 1990 dollars. Yet three years after its enactment, deficit projections were actually larger than they had been before. In the fall of 1990, the Congressional Budget Office (CBO) estimated that the deficit would fall to $29 billion in FY 1995 as a result of OBRA-90. Three years later, the deficit for that year was estimated at $284 billion, an increase of $255 billion in three years. Republicans used this as compelling evidence against the tax increases OBRA-90 contained, blaming the increases for the recession and George Bush’s 1992 electoral defeat.

The deficit situation worsened in the early 1990s because of the deterioration of the U.S. economy and technical errors in estimating revenues and entitlements, not because of inherent defects in the plan itself or a breakdown in the Budget Enforcement Act (BEA) designed to protect the savings. 1 Technical errors were the greatest culprit, adding $185 billion to the projected deficit in FY 1995 alone. Annual costs of Medicare, Medicaid, and other benefit programs were $85 billion greater than expected. Revenues for 1995 were projected to be $138 billion less than in the 1990 forecast, $102 billion because of the recession, and $36 billion because of errors in predicting what the new tax provisions would achieve. Conversely, the deficits did not grow because of policy changes made by Congress; only $2 billion of the revised FY 1995 deficit was attributable to purposeful actions to spend more or tax less. The BEA succeeded in holding the line on discretionary spending, even if it did not include any provisions for further policy changes if the deficits worsened. The bottom line for OBRA-90 was a net deficit savings of $482 billion in five years over what would have occurred if nothing had been done. 2 The deficit in 1995 would have been nearly $500 billion without OBRA-90.

Targeting the Deficits: Responsibility and Risks

The Clinton administration and congressional Democrats were jolted by the numbers they saw after the election. Both the Office of Management and Budget (OMB) and CBO were showing a deficit path veering upwards. On January 6, 1993, Bush Budget Director Richard Darman released the outgoing administration’s final set of estimates. For the first time since the executive budget was created in 1921, the president did not submit a set of budg-
et requests, instead leaving the decisions to his successor. OMB figures added $189 billion to the deficit over what it had projected in mid-1992 during the campaign. But as bad as the new numbers were, congressional Democrats argued that they were deceptively low. Darman, they complained, could not resist manipulating the numbers one last time. The key year for measuring Clinton’s campaign promise was FY 1997, the fourth year of his presidency. OMB projected a deficit of $300 billion, based on several controversial assumptions. Clinton supporters suggested that a more accurate number was $360 billion, making the task of cutting the deficit in half all the more difficult. CBO’s long-term budget outlook projected a deficit of $319 billion in 1997 and showed the gap between revenues and expenditures growing to as high as $650 billion (7 percent of GDP) early in the next century.

Clinton had promised a new economic plan immediately after his inauguration. The schedule called for the unveiling of his economic and budget package in mid-February when he delivered the State of the Union address. During the transition, his new economic team immediately began to struggle with the need for deficit reduction and its political risks. The team included former Texas senator Lloyd Bentsen as Treasury Secretary, former HBC chair Leon Panetta as Budget Director, Robert Rubin as Chair of the National Economic Council, and Laura D’Andrea Tyson as Chair of the Council of Economic Advisors (CEA). Along with the president’s personal advisors, they realized that they would have to temper Clinton’s promises to stimulate the sluggish but expanding economy because of the growing pressures for serious deficit reduction.

The president faced a critical choice the day after his inauguration. Two and a half years earlier, the authors of OBRA-90 had set January 21, 1993, as the day the new president would have to choose between the fixed deficit targets of Gramm-Rudman-Hollings that had prevailed between 1985 and 1990, or the flexible targets that were established for 1991 to 1995. Preserving flexibility, the administration opted to retain the floating deficit targets. Predictably, the decision was attacked by Phil Gramm and other Republicans. Gramm promised that he would follow his familiar strategy of using the statutory debt limit (which would expire sometime in April) for an all-out assault on the deficit in the form of a balanced budget amendment, with the help of H. Ross Perot and his United We Stand backers.

Several members assumed new leadership posts in Congress. In the House of Representatives, Democrats had chosen Martin Olav Sabo of Minnesota to chair the Budget Committee. A liberal, Sabo was less experienced in the arcane world of congressional budgeting than his predecessor, Leon Panetta. Members of the House Appropriations Committee hoped that in Sabo, a
longtime member of the Appropriations Committee, they finally had a Budget Committee Chair more sensitive to their interests. In the Senate, the resignation of Lloyd Bentsen to take the reins at the Treasury elevated New York Senator Daniel Patrick Moynihan to the post of Chair of the Finance Committee. Deficit hawks within the Democratic Party had grown stronger in recent years. But while congressional support for the concept of deficit reduction was strong in principle, agreement on the specifics would prove highly problematic.

The Clinton Economic and Budget Plan

*Stimulus, Investment, and Deficit Reduction*

The Clinton plan announced to a joint session of Congress and a national television audience on February 17, 1993, was greeted by Democratic cheers and Republican jeers. The plan had three components: a short-term economic stimulus package, a long-term investment package, and a deficit reduction plan balanced between tax increases and spending cuts. The $30 billion stimulus package was divided between $16 billion in new spending and $12 billion in business tax credits, with the remainder in loans and construction authority. The four-year, $160 billion investment plan combined new spending on infrastructure and on training and education and other social programs such as child care with additional tax incentives. These two components of the president’s campaign promises were largely overshadowed by the largest piece of the administration’s proposals: a package of tax increases and spending cuts to cut the federal deficit by $493 billion over five years. Spending cuts of $247 billion were matched by $246 in new revenues, a politically sensitive 1–1 ratio. The proposed spending cuts came from defense ($76 billion), discretionary domestic programs ($50 billion), entitlements ($76 billion), Social Security ($21 billion), and reduced interest payments ($24 billion). Proposed new revenues included higher personal income taxes for upper-income individuals ($126 billion), an energy tax based on BTU content ($71 billion), higher corporate income taxes ($31 billion), and a variety of other smaller measures. To protect lower-income families, the Clinton administration asked Congress to expand the Earned Income Tax Credit (EITC) which would cost $26 billion.

The reaction was partisan, with Republicans lashing out at the ratio of spending cuts to tax increases in what they labeled a “tax and spend” Democratic package. They immediately questioned counting an increase in
the amount of Social Security income subject to federal taxes, which would bring in an additional $21 billion, as a spending cut as the administration had proposed. When the stimulus and investment packages were included, the deficit savings netted cuts of only $117 billion and tax increases of $207 billion, nearly the inverse of what administration officials had earlier advocated. Nonetheless, both the economic and budget plan and the president himself received high ratings in the polls. He received public support for the package from Fed Chair Alan Greenspan, and long-term interest rates continued to decline.

*The Budget Resolution*

The stimulus and investment packages designed to sweeten the deal would prove harder to sell than the deficit reduction proposals. The fast track for the president’s proposals began with the congressional budget resolution. The short-term stimulus package was contained in a supplemental appropriations bill, with the bulk of the spending cuts and revenues lumped together in a reconciliation bill. The remaining one-third of the spending cuts would have to be made by the Appropriations Committees through regular appropriations bills. To deflect Republican criticism that spending cuts would never be enacted, the Democrats revised the budget schedule in order to vote on the full package of spending cuts in the budget resolution before bringing up the $16 billion stimulus bill.

The administration lobbied Congress hard for the budget resolution and stimulus plan as a parade of cabinet secretaries testified on the Hill. The president himself traveled to the Capitol to pressure both wavering Democrats and Republicans, bringing a birthday cake to House minority leader Michel and later dining on Big Macs and fries with Senate minority leader Dole. The administration suffered a setback when CBO’s analysis of the president’s proposals found some $60 billion less in deficit reduction than claimed through 1998. To keep conservative Democrats on board, both the House and Senate Budget Committees, with the administration’s support, added an additional $63 billion in deficit reduction, mostly in additional spending cuts. The Senate Budget Committee defeated over fifty Republican amendments, and both budget committees approved their budget resolution in strict party line votes. This was no guarantee of unanimous Democratic support throughout the process, however. The details, such as the increasingly unpopular BTU tax, would be debated and voted on later.

In the third week of March, the House of Representatives approved both the budget resolution and the president’s stimulus package. The $1.5 trillion
resolution passed 243–183 with only eleven Democratic defections, while the stimulus package was approved 235–190 with twenty-two Democrats voting against. Not a single Republican voted for either measure, a pattern that would repeat itself throughout the spring and summer. A week later, under the restrictive procedures of the budget process, the Senate approved the budget resolution by a vote of 54–45 sending it to conference. Only two Democrats joined the unanimous minority in opposition.

The Demise of the Stimulus Package

Unlike the budget resolution, the stimulus package did not fall under the protection of the budget rules which limited debate in the Senate. After repeated efforts at compromise failed, the Senate Republicans filibustered, as much to send a message that they should not be ignored as to elucidate their specific policy differences. After failing four times to get the sixty votes necessary to invoke cloture, the administration and Senate leaders conceded defeat at the end of April. The time had already passed for much of the spending to be obligated by summer, a key rationale of the short-term stimulus package. Clinton would eventually succeed in getting about half the money approved, such as the $4 billion extension of unemployment benefits that was approved the same day the stimulus package was abandoned.

Approving the Package: The “Near Death” Experience

The Reconciliation Process

Despite the defeat of the spending portion of the stimulus package, the administration continued to make progress on the deficit reduction package, most of which was contained in the largest reconciliation bill in history. Conferees had no trouble in agreeing on a budget resolution, and it was approved by both houses. The Democrats also faced the problem of the expiration of the statutory debt limit. Once again, Senator Gramm and others had threatened to use the must-pass bill as a vehicle for deficit reduction measures such as the line-item veto or a balanced budget amendment. Although the House automatically approved a multiyear extension with the enactment of the budget resolution, they had to go to conference with the Senate. The best the Democrats could do was to provide enough borrowing authority to cover the government’s needs through September 30, 1993, an increase of $22.5 billion. Gramm and his allies were thwarted by a procedur-
al maneuver by the Democratic leadership. Because of the early passage of the budget resolution, congressional Democrats were able to include the debt limit extension as part of the reconciliation instructions and more restrictive floor procedures. This protection would hold for the permanent increase in the debt limit as well, as long it was included as part of the reconciliation bill that contained the deficit reduction package.

The fate of the debt limit compared to that of the stimulus package was a demonstration of the impact of reconciliation and the budget rules. The deficit reduction plan was embodied in the $343 billion reconciliation bill, a measure providing binding instructions to committees. This bill was protected on the floor from nongermane amendments, from any amendments that would increase the deficit, and from a filibuster on the Senate floor. The only procedural “loophole” left after the 1985 revisions in reconciliation was the provision that allows opponents to offer a motion to strike, potentially allowing separate votes on controversial elements. Over the years, multiyear reconciliation bills had increased in size and scope, culminating in OBRA-90 and OBRA-93, Clinton’s deficit reduction package.

**House Passage: The Narrow Democratic Majority**

As the House of Representatives prepared to take up the reconciliation bill, the most serious threat to passage seemed to come from oil-and-gas-state Democrats who felt that the BTU tax would be damaging to their constituencies. On the Senate side, David Boren (D-OK) proposed an alternative approach that would scrap the BTU tax and replace the lost revenue with an entitlement cap. Boren’s vote on the Senate Finance Committee was particularly crucial because the Democrats held a slim 11–9 majority on the committee, and the defection of a single Democratic senator would leave the committee deadlocked 10–10. The Boren alternative made things more difficult in the House where conservative Democrats feared “walking the plank” by voting for the BTU tax, only to have the Senate eliminate it in their version.

Administration lobbyists, including the president himself, pressured House Democrats to pass the bill, claiming that nothing less than the viability of Clinton’s fledgling presidency was at stake. With their unanimous opposition, Republicans were ignored in the bargaining over details and the lobbying campaign. The challenge for the president and party leaders was to assuage more conservative Democrats while holding the liberal wing of the party that was already restive over the cuts in entitlements and social programs. The administration made concessions, promising that they would support reducing the energy tax by some $30 billion in the Senate version of the bill. They
attempted to mollify deficit hawks by promising to further control entitlement growth.\textsuperscript{10}

On the day of the House vote, May 27, head counts were still coming up short.\textsuperscript{11} With all of the attention focused on Democrats opposing the bill, Democrats loyal to the president launched a counterattack. A petition was circulated demanding that any committee or subcommittee chair who voted against the bill be stripped of his or her position by the Democratic caucus. Within hours, supporters had gathered eighty signatures, enough to force a showdown in caucus if necessary. Several wavering subcommittee chairmen announced that they would support the bill. In the end, every committee chairman and all but eleven subcommittee chairmen would vote for the reconciliation bill.

The president spent the day on the phone calling likely “no” voters. The vice president met with small groups of opponents in his Senate office. After the defeat of the stimulus package, the administration proved to be single-minded, focused, and ultimately successful. In the end, they prevailed by six votes, 219–213. Thirty-eight Democrats and all 175 Republicans voted against the deficit reduction package. This was only half the battle as attention turned to the Senate.

\textit{Senate Passage: More Cuts, Fewer Tax Increases}

Although a Senate defeat of the budget package would be devastating to the Clinton presidency, passage was even less secure than in the House. Twenty Democratic senators were up for reelection in 1994, and the relentless hammering by Republicans on the tax issue presented them with real electoral problems. In a massive, $500 billion package affecting virtually everything the government does, it is easy to find something not to like. The problem for Majority Leader George Mitchell and President Clinton was to forge a compromise package and sell it to Democrats on the basis of the viability of their party’s presidency. Unlike many of the previous years when they had been full participants in budget making, Senate Republicans followed the pattern of unified partisan opposition of their House counterparts and were excluded from all bargaining.

The biggest stumbling block in the Senate was the president’s proposed energy tax based on BTU content, and it was the first major element of the package to go. The Senate Finance Committee had jurisdiction over the major portion of the reconciliation bill, and all eleven Democratic members had to agree in order to move it to the floor. In committee, the BTU tax, which would have brought in $72 billion over five years, was replaced by a
4.3¢ per gallon gasoline tax that raised only $24 billion over the same period. To keep the deficit reduction at $500 billion, the Finance Committee had to find nearly $50 billion in additional cuts or new revenues. The administration’s concessions were aimed at conservative Democrats. Medicare was cut an additional $19 billion. Tax breaks for business were scaled back by $5 billion, and the EITC for the poor was reduced by $10 billion. The proposal to pump $5 billion into depressed urban and rural areas by creating empowerment zones was jettisoned from the bill. The committee version of the bill claimed $516 in deficit reduction over five years when discretionary cuts were included. By an 11–9 party line vote, the Finance committee approved the reconciliation bill on June 18 and sent it to the full Senate.

Senate liberals, led by Howard Metzenbaum (D-OH) and Paul Wellstone (D-MN), balked at the increase in Medicare cuts, threatening to withhold their votes. To keep them on board, Senate leaders agreed to amendments that reduced the additional Medicare cuts to $10 billion and restored tax incentives for small business. These and other changes lowered the total deficit reduction to $499 billion. The floor debate was unabashedly partisan, as a number of Republican amendments and a substitute bill that excluded any tax increases were debated and defeated. Minority Leader Dole ridiculed the package as “the largest tax increase in the history of the world” that would earn Clinton a place on “Mount Taxmore.” An almost gleeful Phil Gramm commented that he felt “like a mosquito in a nudist colony. The real question is where to strike first.”

As the eighteen-hour debate wound down in the early hours of the morning of June 25, the outcome remained in doubt. In the end, six Democrats voted against the package, joining all forty-three Republicans, leaving it tied 49–49. For the first time since 1987, the vice president would cast a deciding vote. Al Gore, consulting the Senate manual as he presided, voted in the affirmative to give the president a narrow 50–49 victory. Convincing Senator Bob Kerrey (D-NE), a former presidential opponent of Clinton who strongly opposed the gasoline tax, was particularly crucial to the victory. But Clinton had one more obstacle: reconciling the significant House-Senate differences and getting the compromise through both houses.

**The “Conference without Walls”**

Although much of the focus in July and early August during the conference and final floor consideration was on House-Senate differences, most of the original Clinton plan had remained intact. The balance of spending cuts to tax increases, significant increases in personal income tax rates for upper-
income individuals, taxes on Social Security benefits, corporate income tax increases, removal of the cap on income subject to Medicare tax, and many other provisions were close or the same in both bills. Yet the differences that existed were potentially fatal for the Democratic plan. The biggest difference in the competing versions was the energy tax, with many House Democrats still unhappy that they had been pressured to go on record with a vote for the unpopular BTU tax.

The thirty-eight-member House Black Caucus threatened revolt over the Senate changes. Angry at Clinton for his withdrawal of the nomination of Lani Guinier to head the Civil Rights Division of the Justice Department, caucus head Kweisi Mfume (D-MD) insisted that critical House provisions be maintained in the conference. In particular, the caucus wanted empowerment zones, the larger EITC, and smaller Medicare cuts protected. Without their support, no budget could pass the House.

There were countless other problems with the complex package, and there was no margin for error. Truckers organized a national campaign against the gasoline tax. Senior citizens campaigned against Medicare cuts and higher Social Security taxes. Virtually every group and every legislator cared passionately about some portion of the bill. When Senator David Boren (D-OK), who had reluctantly voted for the Senate version in June after the BTU tax was dropped, announced in late July that he would vote against the bill, the leverage of each individual senator became even greater. The administration and Democratic leaders not only had to find another vote to replace Boren but also had to hold on to the other votes. Senator Dianne Feinstein of California got an enhanced research and development tax credit. Senator Russell Feingold of Wisconsin was able to get a ban on bovine growth hormone in the bill.

The Conference Committee itself was a massive assemblage—with over two hundred members involved, it was what one observer labeled a “conference without walls.” Unlike the exclusive group of summiteers who had privately hammered out the original version of the 1990 budget agreement (which was initially voted down), the 1993 budget conference was a wide-open affair.

The Senate had greater leverage in the conference, not only because of the razor-thin margin of support in the first vote, but also because of the “Byrd rule” which banned extraneous matter from reconciliation bills. Senate Republicans hoped to use the procedure to challenge provisions of the conference report on the Senate floor in an effort to gut key provisions of the bill. Democratic leaders pursued a defensive strategy, consulting with the parliamentarian in advance, and striking or revising over one hundred items from the House version that might be subject to challenge.
Despite the hundreds of issues and participants, the outlines of the final version of the bill were falling into place by the end of July. After much negotiation, the Senate’s gasoline tax was adopted. To recoup lost revenues, conferees agreed to make the income taxes retroactive to January 1, 1993, a move that led to cries of outrage from Republicans. Conferees came closer to the Senate provisions on income levels triggering higher taxes on Social Security benefits. Tax breaks for the working poor through the EITC were set at a level below the House version but higher than the Senate’s. The higher corporate income tax rate of 36 percent contained in the House bill was adopted. Empowerment zone spending, at a reduced rate of $3.5 billion, was included in the conference report. With these and hundreds of other compromises, the conference report was completed. Although total numbers continued to be in question, it claimed a deficit reduction of $496 billion over five years, equally divided between tax increases and spending cuts. All that remained was to get majorities in the House and Senate to support it.

Final Passage

Votes were scheduled for the week of August 2 with Congress scheduled to adjourn for the summer on August 6. On Tuesday, August 3, President Clinton made a televised address to the nation. His speech stressed the importance of serious deficit reduction to the health of the nation and the necessity of shared sacrifice to accomplish it. “It has been at least 30 years since a President has asked Americans to take personal responsibility for our country’s future,” he opened. Reminiscent of Ronald Reagan’s appeals, Clinton used charts to try to convince viewers that he “would not balance the budget on the backs of older Americans while protecting the wealthy.” The president’s public appeal as measured by opinion polls was effective, and he was bolstered by the critical support of Fed Chairman Alan Greenspan. But his televised speech was followed on the networks by a blistering attack by Bob Dole who asked citizens to call Congress to demand that the package be voted down. Those calls overwhelmed supportive calls. A few more deals had to be closed as the final vote approached.

With the defection of Boren, the administration appeared to be one vote short in the Senate, with several others still wavering. Senator Dennis DeConcini of Arizona, despite facing a tough reelection fight the next year, provided that last vote. As the price of the switch, DeConcini had negotiated a higher threshold for income that would be subject to Social Security taxes, and as a final concession, Clinton promised to issue an executive order creating a “deficit trust fund.” Such a trust fund had been precluded from the reconciliation bill by the Byrd rule.
With the Senate now seeming more secure, attention turned to the House, which would vote first. As the debate began on August 5, support seemed to be slipping away. With liberals and the Black Caucus back on board based on conference compromises, some of the more conservative Democratic deficit hawks, led by Timothy Penny of Minnesota, began to waiver. In an eleventh-hour gesture, Clinton agreed to establish a formal entitlement review and promised to allow another round of spending cuts in the fall.

As the debate wore on in the House, whip counts continued to come up short. When the fifteen-minute period for House members to vote by electronic device expired, the board showed the vote deadlocked 210–210.19 As the vote went back and forth, it came down to the last uncast vote, that of freshman Marjorie Margolies-Mezvinsky (D-PA). Told by party leaders that they would lose without her, she cast her vote for the package with what was described as “the terror-struck demeanor of someone being marched to her own hanging.”20 More narrowly than expected, the administration’s deficit reduction plan passed the House, 218–216. Forty-one Democrats joined the unanimous Republicans in voting “nay.”

The Senate took up the bill the next day, August 6. Even with the conversion of DeConcini, the outcome was in doubt until Bob Kerrey announced before the balloting that he could not cast the vote that would bring down the Clinton presidency. Republicans tried in vain to use points of order to remove provisions that they claimed violated the Byrd rule, and they failed in their challenge of the constitutionality of the retroactive tax increases. The final roll call produced a 50–50 tie. Once again, Vice President Gore cast the decisive vote to give his administration the narrowest of victories. Bill Clinton commented that “the margin was close but the mandate was clear.”21 On August 10, on the south lawn of the White House, 174 days after his address to a joint session of Congress, Clinton signed the plan into law.

The Deficit Reduction Plan

How Much Deficit Reduction?

At the time of enactment, proponents claimed that HR 2264, the 976-page Omnibus Budget Reconciliation Act of 1993, would reduce the deficit by an estimated $496 billion over five years through increased revenues of $241 and net spending reductions of $255.22 As with most projections of multiyear budget aggregates, however, total savings depend on assumptions of a certain baseline as well as on estimates of the financial consequences of policy
changes. During the deliberations of 1993, three different baselines were used at various times.

One of the main disputes centered on the baseline for discretionary spending in 1994 and 1995 which were capped by OBRA-90 but without specifying particular cuts. Critics claimed that the Democrats were double-counting $44 billion in discretionary cuts. In September 1993, when CBO and OMB recalculated the net deficit reduction produced by OBRA-93, they were as much as $72 billion apart. OMB calculated that the law would reduce spending by $256 billion and increase revenues by $250 billion for a total deficit reduction of $504.8 billion. This was based on an “uncapped baseline” and assumed the Bush administration’s 1992 estimates for defense. CBO, assuming compliance with the earlier discretionary caps, calculated the total deficit reduction at $433 billion: $241 billion in new revenues and $192 billion in reduced spending.

Revenue Changes

- **Individual income taxes.** OBRA-93 imposed a fourth bracket, increasing the top marginal rate to 36 percent for couples with taxable income above $140,000 and for single filers above $115,000. At higher income levels, this top rate rises to 39.6 percent when a 10 percent surtax is added, and that rises further to 40.8 percent when the limitation on itemized deductions is taken into account. CBO estimated that the new rates would produce $115 billion in revenue compared to OMB’s estimate of $125 billion.

- **Gasoline tax.** The major congressional change in the Clinton plan imposed a 4.3¢ per gallon gasoline tax, raising approximately $32 billion over five years.

- **Social Security and Medicare taxes.** The new law made 85 percent of Social Security benefits fully taxable for couples earning over $44,000 and for individuals earning over $34,000 annually. This raised $25 billion over five years according to CBO but only $19 billion according to OMB. Eliminating the cap on wages subject to the 1.45 percent Medicare tax ($135,000 in 1993) raised $29 billion.

- **Corporate taxes.** The final version of the deficit reduction plan raised the corporate income tax to 35 percent for incomes over $10 million, raising $16 billion by 1998.

- **Business meals and entertainment.** The deductible portion of business meals and entertainment was reduced from 80 percent to 50 percent, raising $15 billion in new revenues over five years.
Spending Cuts

OBRA-93 reduced the deficit through cuts in mandatory entitlements and a freeze on defense and domestic discretionary spending. OMB calculated the five-year savings in entitlement spending at $71 billion compared to CBO’s estimate of $77 billion.

- **Medicare.** The largest cuts came from cutting the rate of growth of Medicare by between $49 billion (OMB) and $56 billion (CBO). This was accomplished by reducing payments to hospitals, doctors, and other providers and by increasing the premiums for Medicare Part B.
- **Delay of COLAs.** Federal civilian and military retirees paid for part of the deficit reduction effort: cost of living adjustments were delayed, and the law eliminated the lump-sum payment option for retirees. These changes saved $12 billion.
- **FCC license auction.** OBRA-93 mandated that the FCC auction for commercial use a portion of the electromagnetic spectrum formerly reserved for government. OMB estimated that this would save nearly $13 billion, while CBO came up with a more conservative estimate of $7 billion.
- **Medicaid.** The Democratic plan as enacted repealed the requirement that states provide personal care services under Medicaid, and the plan limited payments to hospitals serving a high proportion of indigents. This would save $7 billion.
- **Student loans.** OBRA-93 changed federal law under the Family Education Loan program, formerly called Guaranteed Student Loan program, to begin a transition to direct federal loans to college students. States were also required to share in default costs. This was estimated to save $4 billion over five years.
- **Discretionary spending freeze.** The most significant spending cuts came in the form of a freeze on discretionary spending, maintaining and extending a set of discretionary caps through 1998. As noted above, this component represented the greatest disparity in estimating the impact of OBRA-93, with CBO counting only the $68 billion saved in FY 1996, FY 1997, and FY 1998, while the administration counted the savings at $108 billion over what discretionary spending would have been over five years with no caps. The overall impact of the caps was to freeze discretionary spending at nominal 1994 levels. With inflation around 3 percent, this equated to a cut
of approximately 10 percent in real terms by 1998. As discussed in more detail below, the discretionary caps imposed rigid policy constraints on both Congress and the president, ushering in an era of zero-sum budgeting for much of the federal government.

Changes in Budget Rules

The Balanced Budget Act of 1985 (GRH) and OBRA-90 had included a number of major changes in budget rules and procedures. Primarily because of the Byrd rule, OBRA-93 did not ultimately make major changes in budget rules, largely reaffirming the procedures implemented through the Budget Enforcement Act (BEA) enacted in 1990. Yet a number of changes were part of the negotiations over the 1993 budget plan. As we have seen throughout, negotiation over budget rules is important for several reasons. First, the results help determine how effectively party leaders can maintain control of the agenda and floor consideration in the House and Senate. Second, some of the rules have direct budgetary consequences and can limit congressional discretion and policy options. Third, in terms of bargaining and making concessions within the party to maintain a majority, certain procedural changes have been used as a bargaining chip in much the same way as taxing and spending provisions. The House adopted a number of budget process changes, but many were deleted in Conference Committee. These new rules were less oriented to helping party leaders than to achieving certain policy goals and serving the political interests of their proponents.

House-Passed Changes

The reconciliation bill passed by the House in May included a number of changes in the budget process, including several separate new titles: the Budget Enforcement Act of 1993, designed to extend and expand the provisions of the 1990 BEA; and the Budget Control Act of 1993, designed to control the growth of direct spending (predominantly entitlements).26

- Extend discretionary caps, and end deficit targets. The House bill extended the deficit targets only through 1995, eliminating one of the most prominent features of GRH. The bill extended the discretionary spending limits through 1998, opting for a single cap rather than the separate defense, domestic, and international caps that were enacted in 1990.
• **Extend BEA enforcement provisions.** The bill also extended the life of the enforcement mechanisms that had been enacted in 1990. PAYGO requirements that any legislation increasing the deficit be offset with additional revenues or spending cuts were extended until 2002. Other temporary BEA rules were made permanent, and a number of changes were made concerning the budget resolution coverage and enforcement.

• **Establish deficit reduction trust fund.** In an attempt to ensure that all the budget savings in OBRA-93 went to deficit reduction, the bill established a Deficit Reduction Trust Fund (DRTF). Money in the trust fund must equal the amount of savings from OBRA-93 in that year and previous years and may be used only for the payment of Treasury debt obligations when they mature.

• **Create direct spending targets.** The Budget Control Act created a series of targets for “direct spending” through 1997. The targets were to be established and adjusted by the OMB Director according to a series of requirements.

**Senate-Passed Changes**

The Senate also considered a number of changes in the budget process as part of their version of the reconciliation bill in June. The bulk of the changes were introduced in the form of three amendments during floor consideration by Budget Committee Chairman Sasser (D-TN). Only one of those amendments—the one extending the provisions of the BEA and creating discretionary caps through 1998—passed. The others, including direct spending targets and a deficit trust fund, were rejected on procedural grounds. Several other amendments by other senators were also rejected. Senator Gramm unsuccessfully proposed an amendment that would extend deficit targets through 1998, but that would have followed the projected deficits in the Clinton plan, rather than bringing the deficit to zero. In its final version, the Senate bill followed the House actions on spending caps, ending deficit targets in 1995, adopting PAYGO to the new totals, and extending temporary enforcement procedures, including a modified point of order against any budget resolution that violated the spending caps.

**The Byrd Rule**

The parliamentary rule that doomed most of the amendments on the Senate floor and ultimately favored Senate positions in conference was the Byrd
rule. The rule was originated by Senator Robert Byrd (D-WV) and adopted in October 1985, during the consideration of Gramm-Rudman-Hollings. Facing a massive list of nongermane amendments to the reconciliation bill in 1985, Byrd commented, “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 Senate reaffirmed the rule in a Senate resolution in December 1985.

The rule, by 1993, had become a complicated parliamentary technique allowing extraneous material to be struck from reconciliation bills through points of order. The Senate Budget Committee report noted in 1993, “‘Extraneous’ is a term of art. Broadly speaking, the rule prohibits inclusion in reconciliation of matters unrelated to the reduction goals of the reconciliation process.”

In general, a provision is considered to be extraneous if it meets at least one of the following:

1. It does not produce a change in outlays or revenues.
2. It produces an outlay increase or revenue decrease when the instructed committee is not in compliance with its instructions.
3. It is outside the jurisdiction of the committee that submitted the title or provision for inclusion in the reconciliation measure.
4. It produces a change in outlays or revenues which is merely incidental to the nonbudgetary components of the provision.
5. It would increase the deficit for a fiscal year beyond that covered by the reconciliation measure.
6. It recommends changes in Social Security.

The Byrd rule proved effective in keeping extraneous material out of reconciliation bills. In eleven of the fourteen cases involving the Byrd rule between 1985 and 1993, extraneous matter was struck from the bill or not considered at all. The rule came to thwart budget reformers in 1993, however. To prevent challenges to the conference agreement when it came back to the Senate, Majority Leader Mitchell worked with the Senate parliamentarian to assure that no extraneous material would be included. Thus, only the essential components of extending the discretionary caps and enforcement rules would be included in the final version of OBRA-93. That left several key House and Senate Democrats unhappy and led President Clinton, in the final days before the vote, to promise to implement two of the failed reforms through executive order.
Clinton’s Executive Orders

On August 7, 1993, Bill Clinton issued Executive Order No. 12857 establishing direct spending targets through 1997. Following essentially the House-passed version, the president committed to issuing an annual report on entitlement spending. If there were overages, the president would issue a report explaining the cause and “may recommend recouping or eliminating all, some, or none of the overage.” Executive Order No. 12858 established a Deficit Trust Fund in the Treasury to guarantee that new revenues and net budget savings achieved by OBRA-93 were used exclusively for redeeming maturing debt obligations of the Treasury that were held by foreign governments.

The president kept his promise, and these two changes satisfied several critical members of the House and Senate. But neither “reform” would have any practicable effect on either deficit reduction or debt retirement. Neither the president nor Congress was under any obligation to compensate for increased entitlement spending. The order itself did nothing to eliminate the cause of growing entitlement spending, particularly health care costs. The deficit trust fund, similar to President Bush’s proposed tax return check-off to reduce the deficit, simply requires the Treasury to manipulate funds used to retire debt while continuing to issue new debt as needed.

Despite the lack of new rules, OBRA-93 did nothing to weaken the hand of party leaders in controlling the agenda and protecting macrobudgetary legislation on the floor. Ultimately OBRA-93 had a significant impact on the deficit and on the scope of budgetary discretion in subsequent years. The discretionary spending caps locked the president and Congress into essentially zero-sum budgeting for much of the 1990s.

Budgeting under Unified Party Control

Clinton came to Washington after twelve years of Republican administration, ending divided government and promising to end the gridlock attributed to it. Winning the presidency with only 43 percent of the popular vote, Clinton was elected with a plurality that exceeded only that of Lincoln in 1860 and Nixon in 1968, also multiple-candidate races. Even considering his 54 percent of the two-party vote and a better than 2–1 majority in the Electoral College, Clinton’s election did not have the look or feel of a sweeping mandate. Yet the voters had sent a message for the new president to focus on the economy and on domestic issues over foreign policy. The domestic issue that
he focused on first was the deficit, requiring spending cuts and/or tax increases.

By 1993, electoral changes had gradually changed the composition of the congressional parties. Both parties had become more ideologically cohesive, and party voting in Congress had been on a steady upward trend. With the political realignment in the South, many conservative southern Democrats had been replaced by Republicans, and the Democrats that remained tended to be more liberal. Since the mid-1970s, votes on budget resolutions, reconciliation, and omnibus spending bills had been predominantly partisan. Yet Clinton could not automatically count on strict party discipline among congressional Democrats for a package that cut popular programs and raised taxes significantly.

In the final analysis, the Clinton deficit reduction package was a party victory. The most striking feature in 1993 was the unified opposition of the Republicans in both the House and the Senate. This was standard fare for the House, but in many prior years, the Senate Republicans worked with Democrats on budget resolutions and reconciliation, and a substantial number voted for these budgets. In 1993, political calculations and the nature of the tax package led the Senate Republicans to follow the pattern of their House counterparts. The lesson many Republicans took from Bush’s defeat in 1992 was that his compromise on taxes cost him the election. The Republicans used the debate over the Democrats’ deficit reduction plan to reestablish their party’s anti-tax image. They were the unified loyal opposition.

The Democratic Party was less unified, consistent with patterns established over the previous eighteen years. To put it in some perspective, Tip O’Neill delivered a slightly higher proportion of House Democrats in a losing effort in the 1981 reconciliation bill than Speaker Foley, Majority Leader Gephardt, and President Clinton did in 1993. Yet the common conclusion in 1993 was that Democrats proved that they could govern; in 1981, that they were in disarray. However, the task of gaining support for the largest tax increase in history was perhaps more formidable than breaking party ranks to vote for the largest tax cut in history. In 1993 compared to 1981, the size of the Democratic majorities in each house allowed for more defections.

Building a winning party majority was far from automatic or assured. The president and Democratic leaders made a number of concessions to create their narrow victory. Despite the concessions, except for the BTU tax, the package remained largely intact, particularly in terms of the overall size of spending cuts and tax increases. The bargaining was done strictly among Democrats. It is apparent that many more Democrats, for political reasons,
would have liked to vote against the deficit reduction package, but they were convinced that it was in their interest for the party’s plan and the party’s president to succeed.

Particularly striking in 1993 was the emphasis on an appeal to party by the White House and by congressional leaders. This was framed as a test of the Democrats’ ability to govern, particularly facing unified Republican opposition. Party leaders used a variety of techniques to maintain sufficient party unity to prevail. At the extreme, the petition to strip committee and subcommittee chairs raised the possibility of using punitive means. In the end, committee and subcommittee chairs voted overwhelmingly for the plan. More common was the carrot, winning over wavering members with specific concessions ranging from reduced spending cuts to promises of presidential action by executive order.

Democratic Party leaders fostered broader participation in shaping the package, notably in the large Conference Committee. The defeat of the original deficit reduction package in 1990 had demonstrated the shortcomings of small, closed summits. But leaders also used the budget rules to prevent floor amendments or obstruction on the floor. Passing the budget resolution early allowed party leaders to make greater use of the protections afforded by reconciliation. Conversely, the rules also prevented members from making significant budget process changes in OBRA-93. The Byrd rule effectively stymied House attempts to further tinker with the process. On page after page in the section of the reconciliation bill dealing with the budget process, the following language appeared: “The House recedes to the Senate. The House conferees believe that the recommended changes in the House proposal are useful and important and therefore intend to pursue these changes in another forum.” 37

The transition from divided to unified government had a number of consequences, particularly when comparisons with 1990 are made. First, there was no need to utilize extraordinary means such as summits or bipartisan commissions in 1993. Second, the budget plan was adopted in a timely fashion, progressing through the budget timetable devised in 1974 and altered in later years. Third, as noted above, unified party control affected the content of the budget package. Deficit reduction packages under divided government, such as in 1982, 1987, and 1990, never relied on revenue increases for more than one-third of total savings. In the Democrats’ 1993 plan, more than half of the deficit reduction came through higher taxes.

The deficit reduction plan was a significant accomplishment for the president and invited comparisons to Reagan in 1981. He, like Reagan, effectively focused the policy agenda. The president appealed to the public and con-
vinced enough members of his own party to support a set of proposals that were much more difficult to sell than Reagan’s big tax cut and popular defense buildup. Outside of budgeting, Clinton did not find Democratic majorities eager to do his bidding. The narrow budget coalition did not transfer to other issues that lacked the procedural protection of the budget rules. For example, the vote on the North American Free Trade Agreement (NAFTA) a few months later in the fall of 1993 found the president working with an entirely different coalition, one that put him in opposition to a majority of congressional Democrats. His problems with health care reform in 1994 further highlighted the limits of partisanship as a governing strategy and created a context for the midterm elections that would put an end to the brief period of unified government.