The Clinton deficit reduction plan and a robust economy would reverse the upward trend in deficit projections. But politically, Democrats were given little credit, and they headed into the 1994 midterm elections also burdened by a failed effort at reforming health care. The 1994 elections produced a Republican surge in Congress, ushering in a Republican majority in both House and Senate for the first time in forty years, majorities that they would hold for a decade. Once again, national government returned to divided government, this time with a Democratic president facing a Republican Congress.

The new Republican leadership, especially Speaker Newt Gingrich (R-GA), was given a great deal of credit for the electoral victory. Many of the newly elected Republican members of the House believed that Gingrich’s “Contract with America”—ten major proposals that Republicans promised to act on within one hundred days if they gained control of Congress—was behind their sweeping victory. Republicans made a successful national partisan appeal to voters in a campaign where the issues of tax cutting and budget balancing were prominent in the Republican message. In addition, significant turnover in Congress after the 1992 and 1994 elections had changed the partisan and ideological composition of both the House and the Senate. In 1992, 110 new members were elected to the House, and 14 to the Senate. In the 1994 Republican sweep, 86 new representatives and 11 new senators were elected. By the time the 104th Congress convened in 1995, the parties had become even more ideologically divided. In the majority for the first time in two generations, Republicans were particularly eager to use the majority party leadership of Congress to dominate the policy agenda of government and to dominate the president. Republican leaders were particularly assertive in centralizing power in the House, in violating seniority in selecting committee chairs, and in limiting committee autonomy. In terms of budgeting, the Republicans inherited a set of rules and institutions that by 1995 had become a powerful tool for the majority party leaders.
This chapter examines the two and a half years of conflict between President Clinton and the Republican Congress that ultimately resulted in an agreement to balance the federal budget. Despite the continuing conflict, the final result was a bipartisan agreement between Clinton and Republican leaders. In the evolution of congressional budgeting, did this represent a genuine shift toward bipartisanship or, as in the case of Gramm-Rudman-Hollings, a temporary agreement of convenience? How was it possible to balance the budget under divided government when divided government had been assumed to be a major reason for deficits in the first place? We will see that, as in 1993, few significant changes in budget rules were adopted as part of the plan. Instead, congressional Republicans turned to votes on constitutional amendments to enhance their budgetary reputation.

Budget Deadlock, 1995–1996

Cutting taxes was important to the new Republican majority, but so was balancing the budget. Gingrich and Republican leaders believed that the election results presented them with a clear mandate, and they would act aggressively to implement it. House Republicans formulated a plan with nearly $1 trillion in spending cuts over seven years, including sharp reductions in Medicare, enough cuts to allow them to incorporate $350 billion in tax cuts during the same period. They would try to force the president to go along by threatening to shut down the government and default on federal debt if necessary. Although he gradually moved toward their position and agreed to seek a balanced budget, throughout 1995, Clinton used his main weapon, the veto and the threat of a veto, to counter Speaker Gingrich and the Republican tactics. Eighteen months after the battle over the FY 1996 budget started, there was still no agreement on a plan to balance the budget in seven years. Both sides were left to hope that the deadlock over balancing the budget would be resolved by the 1996 elections.

As the frenetic first one hundred days of the 104th Congress were ending, committees in both the House and the Senate were getting down to the business of crafting a comprehensive plan to balance the budget. The House Budget Committee, headed by Representative John Kasich (R-OH), and the Senate Budget Committee, chaired by Senator Domenici (R-NM), began hearings on the budget resolution for FY 1996. On February 6, 1995, President Clinton, chastened by the 1994 election results, submitted a cautious budget that included no major initiatives or deficit reduction. Republicans lambasted the president for abdicating leadership, claiming that he “took a walk” and
“put up the white flag.” Not content just to shape the FY 1996 budget for the fiscal year that would begin on October 1, 1995, Republicans proposed a package of rescissions to cancel spending already approved for the current budget. In May, Clinton vetoed the rescissions bill, and the Republicans lacked the votes to override, a pattern that would be repeated over the next year. A greatly reduced compromise rescissions bill was finally approved in July.

The House balanced budget plan went to the floor in May. It was an ambitious attempt to make major reductions in government, including the elimination of fourteen federal agencies. The House plan would cut spending by $1.04 trillion, including $288 billion in Medicare reductions, and cut taxes by $353 billion. The Senate plan was somewhat more modest, making tax cuts contingent on a plan that would actually balance the budget. Democrats attacked the bills, claiming that the Republicans wanted to balance the budget on the backs of the young, the poor, and the elderly. Still on the defensive, however, on June 13, Clinton put out his own plan for a balanced budget over ten years. Some Democrats attacked the president for capitulating to the Republicans, but he argued his plan would not harm society’s most vulnerable. Republicans ignored the president’s plan. After House and Senate versions passed by nearly party line votes, the budget resolution, which did not need presidential approval, went to conference. The Conference Committee worked out the differences between the two versions, and on June 29, the budget resolution laying out the Republicans’ seven-year balanced budget plan was passed.

Implementation of the blueprint contained in the budget resolution would take place on two fronts. First, the thirteen individual appropriations bills containing discretionary spending that had to be passed by October 1 would provide Republicans an opportunity to make sharp cuts in existing programs. Second, the bulk of the balanced budget package would be contained in a massive reconciliation bill, encompassing multiyear cuts in entitlements and other spending along with tax reductions. With conflict at every stage, the pace was slow and the administration’s resolve was growing. By October 1, only two spending bills had passed, and Clinton had vetoed one of them. Congress passed a six-week stop-gap spending bill as a big battle was shaping up over the reconciliation bill.

The Republican strategy was to try to force Clinton to approve their balanced budget plan by threatening to shut down the government for lack of money and default on the debt if he did not sign their bill. The statutory debt limit was set to expire in mid-November 1995. The Republicans bet that rather than allow a first-ever default on federal debt, Clinton would accept their budget plan. They were wrong. As the November 13 date for the expiration of the temporary spending bill approached, Clinton stepped up his
counterattacks on Congress for trying to blackmail him into signing the bill. The Republicans passed another temporary spending bill and a debt extension with provisions that he had promised not to accept. He vetoed both, and on November 14, “non-essential” federal employees were sent home as the government closed down for six days. The Treasury was able to manipulate funds in order to avoid a default on government bonds.

Republicans did win one important concession from the president. As they were negotiating over another temporary funding bill, Clinton agreed with the seven-year timetable to balance the budget as long as it included his priorities for health care, education, and the environment. Now, both sides wanted a balanced budget in the same timeframe—the only question was how to do it. This concession by Clinton would not make compromise any easier. The final version of the reconciliation bill passed Congress and was vetoed by the president on December 6. Clinton released a new budget plan of his own on December 7. As the stalemate continued, on December 16, the government shut down again and federal workers were sent home right before the holidays. Opinion polls suggested that the public was getting fed up with the divisions in Washington.

However, it was the Republican Congress rather than the president that seemed to be blamed for the budget deadlock. Clinton’s approval rating shot up over 50 percent, the highest rate in two years, as support for Newt Gingrich and the Republicans tumbled. The public saw Clinton sticking to principles and standing up for the little guy. News stories featured unhappy tourists locked out of national parks and monuments and disgruntled government workers not allowed to go to the office. To make matters worse, the stock market dropped over concerns with the budget deadlock. After the holidays, members of Congress returned to Washington, and, spurred by growing internal divisions over the political consequences of their strategy, the Republicans started to back away from their hardball tactics. Robert Dole, worrying about the negative consequences to his presidential bid, said, “Enough is enough. I do not see any sense in what we have been doing, frankly. Maybe I missed the point . . . If there is any point to be made, I think that point should have been made by now.”

Ironically, with concessions by the Clinton administration, the two sides were not as far apart as they had been earlier, and agreement seemed to be within reach. In November 1995, the White House and Congress were as much as $350 billion apart. By January 1996, this figure had lessened to $66 billion. However, as yet another temporary spending bill expired, Republicans were desperate to avoid another shutdown. In essence, the Republicans gave up on getting a budget agreement. Newt Gingrich said, “I
don’t expect us to get a seven-year balanced budget with President Clinton in office.” Meanwhile, no budget had passed, leaving many agencies and departments in financial chaos. In the spring of 1996, half way into the fiscal year, fewer than half of the appropriations bills had passed, and the fourteenth temporary spending bill had to be passed to avoid another shutdown. An increasingly confident White House lambasted the Congress for not completing its work on the budget. Meanwhile, the cycle for the FY 1997 budget was already starting, although Clinton delayed submission of the plan by over a month and submitted only the rudiments of a regular budget.

The deadlock over the balanced budget plan was not so much resolved as it was postponed. In late April, both sides agreed to a bill that would fund agencies through the end of the fiscal year. Both sides still had their own versions of a balanced budget plan, and both sides planned to use the failure to reach a compromise in the 1996 presidential and congressional elections. There was no extraordinary resolution of the 1995–1996 budget deadlock. Instead, it was resolved in part by the mixed message of the election. With the reelection of Bill Clinton by a substantial margin and the trimming of Republican majorities in Congress, the 1996 elections set the stage for eventual agreement on a balanced budget plan in 1997.

The disciplined Republican majority in Congress demonstrated its capacity to formulate a budget policy and control the legislative agenda. However, this episode also shows the limits of congressional leadership without the majorities to override a presidential veto. The Republicans were unable to pressure Clinton into accepting their plan, and their tactics backfired politically. In retrospect, many Republicans believed that it had been a mistake to force the government shutdowns in order to pressure the president. President Clinton, who had been reduced to holding a press conference to deny he was “irrelevant” right after the Republicans captured Congress, boosted his leadership ratings by standing up to the Congress. Nonetheless, Republicans succeeded in getting the president to commit to a balanced budget by 2002 and bringing him closer to their position in many areas. The 1996 elections created a different context in 1997, where President Clinton and Republican leaders in Congress, helped by a booming economy, achieved a plan to balance the budget by 2002 after all.

The Clinton Budget Proposals

In 1997, Congress and the Clinton administration engaged in extensive negotiations throughout the year, from the outline of the budget agreement in a budget resolution, to its implementation in two reconciliation bills, to nego-
tiating over the content of the thirteen appropriations bills. Despite the progress made toward a balanced budget, Republicans pursued constitutional approaches to fiscal restraint as well. Congress came within a whisker of passing a balanced budget amendment, and President Clinton became the first (and only) president to employ the line-item veto.

The Political and Economic Environment

Congress and the president had faced a series of deficit crises since 1981. As we have seen, previous efforts had never even come close to reaching a balanced budget or even an agreement to balance the budget. What was different about 1997?

The 1996 elections convinced both parties that either they must compromise with each other or else deadlock would continue. The fact that Clinton had won convincingly but not overwhelmingly in 1996, and the Republicans had won a reduced majority in the House, provided a more realistic message than the message Republicans took from the 1994 results. Congressional Republicans were faced with the choice of compromising and getting something substantively and symbolically important to deliver to constituencies, or continuing to hold out for total victory.

The second factor that made it possible to reach a budget agreement was the strength of the economy and related improvement in long-term deficit forecasts. Just as the deficits had ballooned during the recession of the early 1990s, so did they shrink because of better-than-expected growth in the mid-1990s. This was particularly true during 1997, when between January and May, the Congressional Budget Office revised their deficit forecasts, “finding” $225 billion over five years. This made compromise much easier, allowing bigger tax cuts and elimination of some of the most unpopular and controversial spending cuts.

The experience of the failed negotiations over a balanced budget agreement in 1995 and 1996 provided an important foundation for 1997. Several factors came into play. The Republicans moderated their tactics from two years earlier, although there was still plenty of rhetoric. However, with Gingrich suffering his own problems within the Republican caucus, other, more pragmatic leaders took the lead on the budget negotiations. Many Republicans believed that they had kept control of Congress by moving major legislation, such as welfare reform in late 1996, before the elections. Many wanted a budget deal for the same reasons. In addition, the negotiators knew the areas where the other side was more likely or not to bend. There were substantial areas of agreement in terms of tax cuts, Medicare
restraints, and domestic spending limits. Nonetheless, the macrobudgetary choices still represented the fundamental values of both parties, and ground would not be given without a fight.

The President’s FY 1998–FY 2002 Budget

Typical of presidential budget messages, Clinton’s FY 1998 message extolled the accomplishments of the past, particularly deficit reduction and reductions in the number of federal employees. He noted that the size of the deficit had fallen by 63 percent, from $290 billion in 1992 to $107 billion in 1996. The federal work force had fallen by 250,000 positions to its lowest number in thirty years. But in terms of what the budget promised, far more emphasis was placed on new initiatives and priorities than on budgetary discipline:

We must not only provide tax relief for average Americans, but also increase access to education and training; expand health insurance to the unemployed and children who lack it; better protect the environment; enhance our investments in biomedical and other research; beef up our law enforcement efforts; and provide the needed funds for a thriving global policy and a strong defense.

Unlike many other presidential budgets proposed to a Congress of the opposite party, President Clinton’s FY 1998 budget was not pronounced “dead on arrival” by members of Congress. Rather, Congress largely worked from the president’s numbers rather than writing competing budgets, an approach that was possible because the administration had moved toward the GOP, to the dismay of many congressional Democrats who felt that their party message was being blurred. Clinton’s budget contained tax cuts, including capital gains tax cuts that Democrats had opposed for years, and substantial Medicare cuts. Clinton sent Congress a budget calling for $1.687 trillion in spending and revenues of $1.567 trillion, resulting in an estimated deficit of $76 billion. More important was the five-year plan for balancing the budget. Clinton’s plan proposed a net savings over five years of $388 billion that would result in a budget surplus of $17 billion by 2002. The components of the Clinton plan that were highlighted in the budget message included the following over five years:

- Tax cuts of $98 billion targeted on middle-income families and small business.
• Revenue increases of $76 billion extending expired taxes, closing loopholes, and additional taxes for net tax cuts of $22 billion.
• A “trigger” mechanism that would cancel tax cuts and further cut spending if budget projections proved less optimistic.
• A net savings of $137 billion in discretionary spending, but increased spending for education and training, the environment, and law enforcement.
• A reduction in outlays by $22 billion in Medicaid, offset by growth in some areas for a net savings of $9.3 billion.
• A reduction in outlays over projected levels by $109 billion in Medicare, splitting the difference between the last Democratic and Republican proposals.
• An increase in offsetting receipts by $36 billion through broadcast spectrum auction.
• An increase in spending by $18 billion to repeal the welfare reform provisions stripping legal aliens of benefits.

**Revenues** With caps severely limiting discretionary spending, many of Clinton’s budget initiatives were found on the revenue side of the budget. Education was at the top of the list. The FY 1998 budget proposed $38.4 billion in tax preferences through various credits, deductions, and exclusions. First, the Hope Scholarship tax credit would provide a $1,500 tax credit for two years of post-secondary schooling for families with incomes below $80,000. Second, families with incomes below this level could also take up to a $10,000 deduction to offset the cost of post-secondary education. Third, the president proposed to allow people to take penalty-free withdrawals from their individual retirement accounts (IRAs) for college. Fourth, the president proposed that the provisions exempting the value of employer-provided education benefits from taxation be extended. Similar to some Republican plans, was estimated to cost $46 billion over five years. Clinton also moved toward the Republicans in proposing a limited capital gains tax reduction. He proposed that profits on the sale of a home of up to $500,000 be exempt from capital gains taxes. If adopted, it would reduce revenues by $1.4 billion. The administration also proposed expanding IRAs to individuals with higher incomes and allowing the money to be withdrawn penalty-free for the purchase of a first home. These proposals reduced revenue by $5.5 billion over five years. Also included were a set of revenue initiatives to help distressed urban areas and tax credits for employers who hired welfare recipients at a cost of $3.2 billion over five years.
In total, Clinton’s revenue proposals would reduce receipts from current policy by $98 billion over five years, far less than most Republican alternatives and nowhere near the $550 billion in tax cuts that Bob Dole had promoted during the 1996 presidential campaign. These tax cuts were offset by $76 billion in new revenues, leaving a net tax cut in the president’s budget of only $22 billion. New revenues came primarily from eliminating tax breaks for corporations and wealthy taxpayers. Excel taxes were expanded, including restoration of the excise tax on airline tickets that had expired. The proposed trigger mechanism would be employed in 2001, canceling most of the tax cuts if the budget was not on a path to balance by 2002.

**Spending** Much of the deficit reduction that had been achieved over Clinton’s first five years came from restraint in the growth of discretionary spending and larger-than-expected revenues. His five-year plan proposed in the FY 1998 budget continued that approach, although it was heavily back loaded, with most of the reductions coming in 2002. For FY 1998, discretionary spending would actually increase above the rate of inflation. Education, the environment, and law enforcement were at the top of the priority list. Clinton proposed $56.2 billion for education, an increase of $4.9 billion or nearly 10 percent over FY 1997. This would go toward school building programs, particularly school modernization in urban areas. Funding for technology literacy would be doubled from the previous year to help schools connect to the Internet. In terms of higher education, an additional $2.8 billion was requested for student loans. For the environment, the administration asked for significant increases in the budget of the Environmental Protection Agency and the superfund. EPA spending was slated to increase by 17 percent to $7.7 billion, and the superfund would grow to $2.1 billion, an increase of 33 percent. Spending for justice-related activities were also boosted in Clinton’s FY 1998 budget, with a total request of $24.2 billion, an increase of 16.6 percent from FY 1997. Much of this was mandated under earlier anti-crime legislation, but several new initiatives were included, such as increased appropriations for the Federal Bureau of Investigation, the Drug Enforcement Administration, and the Bureau of Alcohol, Tobacco, and Firearms.

Much of the proposed savings in the president’s budget came from Medicare and Medicaid, despite the Democrats’ controversial attacks against Republicans for proposing Medicare cuts during the 1996 campaign. Clinton proposed cuts in Medicare of $109 billion over five years, 43 percent of all spending cuts. Medicare spending in FY 1998 would amount to $207 billion, an increase of 6.6 percent over 1997 but more than 4 percent below previous projections. Cuts would be achieved by reducing payments to doctors, hos-
pitals, and health maintenance organizations (HMOs). Hospital payments would decline $33 billion over five years over earlier baselines, while HMOs would receive $34 billion less. Medicaid would suffer no cuts under the president’s budget in FY 1998 but would suffer net cuts of $9.3 billion over five years from previous projections. Proposals to set a per capita limit on payments to states in return for more flexibility in administration would generate nearly $22 billion in savings. This would be offset by proposals to increase health insurance for children and unemployed workers and other initiatives that would cost nearly $13 billion.

Despite strong Republican opposition, one of the president’s priorities in his budget proposals was to revise certain provisions of the 1996 welfare reform bill.\textsuperscript{15} His requests included changes to increase spending by $3.1 billion on food stamps for families with high housing costs or with vehicles above a certain value. He proposed an additional $300 million to allow disabled children to continue to receive Medicaid benefits that they had lost with welfare reform. An additional $3 billion was requested for states and cities to hire welfare recipients. The largest proposal was an additional $14.6 billion to allow legal immigrants who become disabled to receive SSI and Medicaid and for their children to receive Medicaid. Mayors and governors of both parties around the country were clamoring for this change.

Another issue that would divide Congress and the president in the 105th Congress was the balanced budget amendment to the Constitution. The Clinton budget message contained a strong brief against the amendment. Calling the requirement “potentially dangerous,” the administration argued that it would endanger the automatic stabilizers built into federal spending:

Consider what could happen under a balanced budget amendment. A weak economy would mean fewer tax revenues and more spending on unemployment and other programs. As a result, a balanced budget requirement could force a tax increase or spending cuts—or both—in the middle of a recession. These steps could make a weak economy even weaker. . . . The better practice is to aim for balance, but to adjust budget policy according to circumstances.\textsuperscript{16}

Congressional leaders criticized many aspects of the Clinton plan. They were particularly critical of what they saw as a “gimmicky” estimate for $36 billion in revenues from the broadcast spectrum auction, 90 percent of which would come in 2002. Clinton’s budget projected a budget surplus of $17 billion in 2002. CBO budget forecasts were much less optimistic than OMB’s. Their analysis of the president’s budget concluded that it would still leave a
deficit of $69 billion in 2002. The competing numbers had profound con-
sequences for reaching an agreement. Accepting CBO’s five-year projections
necessitated cutting from the president’s budget an additional $187 billion
from the deficits over five years. Three months later, it would turn out that
even OMB’s numbers had been too pessimistic.

As the House and Senate Budget Committees began markup of their
respective budget resolutions, the main lines of difference between the presi-
dent and Congress began to clarify. The Republicans wanted more cuts in dis-
cretionary spending, more restraint in Medicare and Medicaid, a broad-
based capital gains cut indexed for inflation, and substantially greater tax
cuts across the full range of incomes.

As the negotiators from the White House and Congress were working on
these and other issues, the Republicans returned to what they believed would
be permanent solutions to deficits: a constitutional amendment to balance the
budget and a constitutional requirement for supermajorities for tax increas-
es. The outcome of the balanced budget amendment vote could affect the
ongoing budget negotiations. On one hand, bruising partisan fights over the
amendments could endanger bipartisan efforts. On the other hand, the sense
that a balanced budget agreement was finally close after nearly two decades
deficit battles could diminish the urgency for a more drastic solution.
Either way, it was an important part of the budget politics that would deter-
mine the outcome of Clinton’s FY 1998 proposals.

Republican Constitutional Proposals

The Balanced Budget Amendment

Not only did congressional Republicans want to balance the federal budget;
they also wanted to make it a constitutional requirement to balance the budg-
et as in many of the states. To keep taxes low, they proposed a second amend-
ment that would require supermajorities in both houses to raise taxes. The
balanced budget amendment, a proposal that had been around for many
decades, has been called by one observer “the constitutional equivalent of the
Energizer bunny.” The modern effort did not gain political momentum until
the mid-1970s after state legislatures, prompted by the National Taxpayers
Union, called for a federal constitutional convention to propose such an
amendment. Later, the Reagan administration endorsed the balanced budg-
et amendment campaign, and it became an integral part of the Republican
Party platform. It is, in general, supported by approximately 75 percent of
the public, although support declines when it is linked to cuts in popular programs.

Despite its widespread appeal, the two-thirds majority requirement in both houses of Congress has proven to be an insurmountable barrier to the amendment. In 1982, a proposal was approved by a two-thirds majority in the Senate, but it failed in the House. A 1986 measure passed the House but fell short in the Senate by a single vote. Efforts in 1990 and 1992 were successful in the Senate but not in the House, by seven votes and nine votes respectively. The 1994 version did not obtain the requisite two-thirds majority in either house. Undaunted, Republican leaders pledged to make the balanced budget amendment their highest priority, including it in their “Contract with America.” Still, while the 1995 and 1996 proposals comfortably passed the House, they failed each time in the Senate by a handful of votes.

The 1997 version of the balanced budget amendment prohibited outlays for a fiscal year from exceeding total receipts unless authorized by three-fifths vote of the whole number of both houses of Congress, and this version required a three-fifths vote of the whole number of each house to increase the public debt. A simple majority of each house was necessary to increase revenues. The proposal included an exception to these provisions in times of war. The amendment would become effective in 2002, or in the second year following ratification by three-fourths of the states, whichever came later.

The year 1997 appeared to be the best chance ever to pass an amendment because of the 1996 Senate elections. Several balanced budget opponents had been defeated, and a number of new senators had pledged to support the amendment during their campaign. It would be taken up in the Senate first where the margin was seen as closer. While negotiators were haggling over the outline of a balanced budget agreement, debate over the amendment took place over an intense four-week period in February and March. Attention focused on four undeclared freshmen Democratic Senators: Robert Torricelli (NJ), Mary Landrieu (LA), Tim Johnson (SD), and Max Cleland (GA). If they all voted aye, the amendment would pass. Each had supported the amendment in his or her Senate campaigns, and two of the Senators, Toricelli and Johnson, had voted for similar proposals while serving in the House. Once debate over the amendment began, the four freshmen pledged to meet frequently and discuss the measure in order to support one another and avoid any quick decisions which might give the amendment momentum and place increased pressure on the remaining undecided Senators. Despite initial criticisms that he wasn’t working hard enough against the amendment, President Clinton and Treasury Secretary Robert Rubin lobbied aggressively against
the amendment. Cleland announced that he would support it, but Johnson followed with an announcement that he would oppose it, still leaving the issue in doubt. Landrieu announced her support as the vote approached, leaving proponents only one vote away. But on February 26, Torricelli announced that he would vote against, which would probably kill the amendment.

Torricelli’s decision prompted an outcry by Senate Majority Leader Trent Lott, who denounced Torricelli and Johnson, although not by name, from the Senate floor. “This is a question of honesty. It is a question of truth in government. We wonder why people are cynical, why they wonder about us, why they question us. This is Exhibit A.” Democrats introduced a dozen amendments to the amendment, including several measures to protect Social Security cuts. All failed, but the linkage had been made to Social Security, and some critical political cover was provided. One commentator noted that by tying the amendment to Social Security, Clinton had found the “political equivalent of a magic bullet.” When the vote was finally taken on March 5, all fifty-five Republicans and eleven Democrats voted in favor of the amendment, and thirty-four Democrats opposed the measure, one vote shy of the two-thirds majority requirement.

**The Tax Supermajority Amendment**

The balanced budget amendment was not the Republicans’ only attempt to reform federal budgeting in 1997 by constitutional means. They also made a second attempt to pass an amendment requiring a supermajority to increase federal taxes. The Tax Limitation Amendment of 1997, like its earlier counterpart in 1996, required two-thirds of the House and Senate members present to approve any bill increasing internal revenue laws “by more than a de minimis amount.” Under this proposal, members could still enact legislation by a simple majority that raised some taxes but cut others as long as the net effect was zero. The 1997 amendment required a two-thirds majority of the House and Senate members present to enact “any bill to levy a new tax or increase the rate or base of any tax.” An exception to this requirement would be made only if the country was at war or in a military conflict that included a threat to national security. Republican leaders scheduled a symbolic floor vote on April 15, the IRS deadline for filing taxes. A majority supported it by a vote of 230–190, but it was far short of the requisite two-thirds majority. The Senate did not vote on the proposed amendment.

The amendment to require a supermajority to increase taxes was strongly opposed by the Clinton administration. However, perceiving it as more of a sideshow than a real threat, the administration’s efforts were not as urgent or
intense as with the balanced budget amendment. Nonetheless, the fact that the Republicans wanted to debate the tax amendment and highlight partisan differences with the Democrats just as bipartisan negotiations over the balanced budget agreement were reaching a climax is instructive of the political environment surrounding the budget in 1997. It suggests that even as congressional Republicans pressed for a deal, many feared giving away the tax issue and balanced budget issue. It also presaged partisan battles that would continue between the budget resolution and final reconciliation bills, that would hold up appropriations bills until November, and that would characterize President Clinton’s use of the line-item veto.

The Balanced Budget Agreement

While Congress was debating and voting on the two constitutional amendments, negotiations over the budget agreement continued. They were marked by the usual public posturing and predictions of failure if the other side did not compromise. In mid-March, Senate Budget Committee Chair Domenici said that the chances of getting a negotiated budget were “finished.” House Republicans passed a nonbinding resolution demanding that President Clinton submit a second budget that was more “realistic.” But by late April, concessions by both sides had brought them close to the outlines of a deal. With major tax cuts proposed by both sides, negotiators were still having trouble reaching the deficit targets. Trying to find a centrist solution, they continued to be pressured by ideologues of their own parties. House liberals warned the administration that they would not support any more concessions to the Republicans. In the Senate, a group of ten conservative Republicans led by Phil Gramm (TX) warned Majority Leader Trent Lott that their support could not be taken for granted. They set out five key “thresholds” that had to be met in terms of tax cuts and discretionary spending to gain their support. One of their demands was to oppose a change in the way in which federal programs were adjusted for inflation by changing the consumer price index (CPI). Several months earlier, a blue ribbon commission had concluded that the current CPI overestimated inflation by as much as 1 percent, and they recommended adjustments. However, opposition from senior citizen groups made this seemingly innocuous technical adjustment politically dangerous. It would have tremendous budgetary consequences if adopted. CBO estimated that a one-point reduction would shave $141 billion off the deficit in five years.

In late April, negotiators received a windfall from CBO. Its revised estimates of the FY 1997 deficit had dropped dramatically after tax collections
surged during the spring. They would now have an extra $225 billion in revenue, requiring much more modest spending cuts and allowing greater tax cuts. This was the final push that the process needed, allowing the most unpopular items to be dropped. Negotiators jettisoned the politically risky CPI revision plan and a cap on Medicaid that was opposed by many Democrats and state governors. On May 2, 1997, the budget pact was announced by effusive Republicans in the rotunda of the Capitol.

In terms of perceived “wins,” both parties claimed victory. First and foremost, the agreement promised to balance the budget. In terms of Clinton’s FY 1998 proposals, he was able to keep Medicare cuts near to the level he proposed, $115 billion over five years. Tax cuts were increased from a net of $20 billion in the president’s requests to $85 billion in the agreement. For Republicans, the agreement contained a total $135 billion in tax cuts, including capital gains, a priority for their party since the Reagan administration. For Clinton and the Democrats, the package included $35 billion in tax preferences for education, $17 billion for health care for poor children, and some $60 billion in additional discretionary spending over five years. His plan to restore welfare benefits for legal aliens was also accepted.

In his news conference on May 2, President Clinton emphasized, in addition to balancing the budget and putting Medicare on a sound financial basis, how many of his key priorities would be achieved:

This budget meets my goal of making education America’s number-one priority on the edge of the 21st century. It will have the largest increase in education funding in 30 years. It will have the largest increase in Pell Grant scholarships in 20 years. . . . It will extend health insurance to uninsured children. . . . It will give businesses incentives and work with mayors to hire people from welfare to work. . . . It will protect the environment, providing funds to clean up 500 of our most dangerous toxic waste sites. . . . It includes tax relief for the American people, but . . . the tax relief will be limited, and we’ll know the dollar amount not only for the first five years, but for the second five years, so that we will not run the risk of having an explosion in the deficit.

The revenue windfall allowed both sides to deliver benefits to key constituencies while still reaching balance in five years. It also allowed many more difficult issues, such as the CPI adjustment and entitlement growth when baby boomers retire, to be ignored. In fact, with the new numbers, the budget could have been balanced in one or two years rather than five. Most of the painful cuts would not take place until President Clinton was out of
office. Congress had reached agreement with the White House on the broad outlines of an agreement that would have to be translated first into a budget resolution and then, more importantly, into specific implementing legislation in which committees would have the opportunity to put their imprimatur on the bill.

Only two weeks after the May 2 announcement, the deal had nearly collapsed because of disputes over what had actually been agreed upon. Direct negotiations between Speaker Gingrich and Majority Leader Trent Lott, and OMB Director Franklin Raines, produced a written agreement that the White House had demanded. The budget resolution passed the House the same day. The most unhappy group was the congressional Democrats. On May 20, Minority Leader Dick Gephardt announced his opposition to the plan, although a majority of Democrats ultimately supported it. The Budget Resolution (H Con Res 84) cleared Congress on June 5 by wide margins, 327–97 in the House and 76–22 in the Senate. A substantial majority of both parties in both chambers supported the resolution, clearly a bipartisan voting pattern that differed significantly from that of most budget resolutions in the preceding twenty years.

Reaching the outlines of a deal was not the same as actually passing and signing a deal. The balanced budget agreement would be implemented through two major reconciliation bills: one to incorporate the spending changes, the other to cover the tax changes. Over the next two months, the balanced budget agreement appeared to be in serious trouble on numerous occasions as Republican-led committees fleshed out the details of the resolution. For example, the only absolute number in the agreement concerning taxes was a net tax cut of at least $85 billion over five years. This left important details about everything from capital gains to credits for college education to be worked out. Bill Archer, Chair of the House Ways and Means Committee, was particularly adamant about shaping the details of the tax cuts. The administration monitored committee action, often accusing Republicans of violating the agreement and, on occasion, threatening a presidential veto. The negotiations between the White House and congressional leaders were continuous throughout the summer, with the negotiations including not only Republican party leaders, with whom the original agreement was struck, but also Budget Committees and tax-writing committees for the reconciliation bills, and finally the Conference Committee.

Jockeying for partisan advantage continued despite the bipartisan agreement in principle. The GOP again showed questionable public relations instincts by holding up an urgent disaster relief bill by trying to attach a budget freeze to it. When they finally passed the bill, it included the provision
that agency budgets would be frozen at prior-year levels after October 1 if the regular appropriations bills had not passed. It also included a ban on the use of sampling techniques in the 2000 Census. Clinton vetoed it, and the Republicans were blasted in the media for playing politics while the flood victims in the upper Midwest suffered. Three days later, Congress passed a clean bill without the two amendments, and the president signed it. This seemed to strengthen the president’s hand in the ongoing negotiations over the content of the reconciliation bills. Discontent within the Republican Party over this debacle would contribute to an abortive coup attempt in the House to topple Speaker Gingrich. The public tone hardly sounded as if an agreement had been reached. Trent Lott called Clinton a “spoiled brat” at one point, and House Majority Leader Dick Armey was quoted as saying he did not feel bound by the budget agreement.35

The appropriations process also began in earnest. On June 18, the House Appropriations Committee approved its 602(b) discretionary spending allocations to the subcommittees, and the Senate Appropriations Committee followed the next day. Both committees would have $517 billion in discretionary funds to appropriate, less than one-third of the total budget, but containing many of the most important federal programs.

The House and Senate were intently trying to put together the two reconciliation bills. In the House, the Budget Committee chaired by John Kasich (R-OH) had to piece together the work of eight house committees into a single spending cut bill. It would provide $137 billion in net budget savings, primarily through Medicare cuts. The administration and House Democrats complained that the bill violated the budget agreement by failing to restore benefits for legal aliens and by reducing the president’s children’s health initiatives. The tax bill, centered in the Ways and Means Committee, was also the subject of controversy and negotiation. The main objection from the Democrats was the failure to incorporate many of the president’s education initiatives and the overall bias of the tax cuts to wealthy taxpayers. The process of assembling the two bills was more bipartisan in the Senate where the Democrats had more input. Downward reestimation of the revenues from the broadcast spectrum auction left members scrambling to make up the difference.

The Clinton administration had serious objections to both reconciliation bills in the House of Representatives. The president chose, however, to get the bills into Conference Committee and take a stand there. In a letter to House Democrats, he urged them to vote for the bill, “to advance—not oppose—this significant achievement.” He continued, “We certainly understand that we need to improve the legislation further. We expect and will insist that the
The final budget resolution be in conformance with the budget agreement.” The spending cut bills passed the House and Senate on June 25 by votes of 270–162 and 73–27 respectively. Both of these were party votes using the 50 percent criterion, with Republicans (97 percent voting with party) more unified than Democrats (75 percent voting with party). The tax bills passed the next day by a vote of 253–179 in the House and a vote of 80–18 in the Senate. The House vote was much more partisan, with 99 percent of Republicans and 87 percent of Democrats voting with their parties. The Senate vote, where Democrats had much more input in the legislation, was not a party vote. The negotiations would shift to the Conference Committee after the Independence Day recess. Those negotiations would be completed by the end of July.

Despite facing a Congress controlled by the opposition party, Clinton had a number of political advantages working for him during the final negotiations. His popularity was nearly an all-time high for his administration. He had demonstrated his willingness to use the veto on budget matters and his ability to sustain it. The Republicans were eager to reach a budget deal quickly and deflect attention from the failed attempt to remove Speaker Gingrich. While many Democrats still opposed the budget deal, Clinton’s ability to prevail on a number of his top budget priorities in the agreement finally brought a majority of Democrats (although a narrow majority in the House) to his side. Major remaining issues concerned children’s health spending, indexing of capital gains taxes, and the president’s education tax credits. In the end, Republicans conceded to the president’s position on all of these issues.

Final agreement was reached on July 29. The spending portion of the bill passed the House the next day by a vote of 346–85, and the Senate on July 31 by a vote of 85–15. The tax bill passed by similar margins, and on August 5, Republican and Democratic lawmakers gathered at the White House for the signing ceremony.

The Balanced Budget Act and the Taxpayer Relief Act of 1997

The Balanced Budget Act and the Taxpayer Relief Act included the following provisions:

- Net tax cuts of $95 billion over five years, including a middle-class tax credit, $35 billion in higher-education tax breaks, a reduction in the long-term capital gains tax from 28 to 20 percent, and dozens of special-interest tax provisions.
• New taxes on air travel that would add revenues of $33 billion over five years, as well as additional taxes on cigarettes.
• $115 billion reduction in the projected growth in Medicare achieved by reductions in payments to providers and increased premiums; proposal to raise eligibility age to 67 was dropped.
• $24 billion to states to provide health care assistance to children of uninsured, low-income families.
• $10 billion in savings from Medicaid primarily through cuts in payments to providers.
• $18 billion to cover the costs of welfare benefits for legal aliens.

Although a majority of House and Senate Democrats voted for the conference agreement of the major bills, congressional Democrats were divided. How much had the president’s compromises preserved key Democratic Party positions? The administration was able to prevail on a number of initiatives: repeal of certain provisions of welfare reform, enactment of most education proposals, and increases in spending on the environment and law enforcement. The final version of the Balanced Budget Act provided for Medicare cuts of $115 billion over five years, only slightly more than his initial proposal of $109 billion and significantly less than the Republican proposals from the previous Congress. Clinton’s proposals for health care for children were funded. His main concession to the Republicans was on the size of the tax cut. His budget proposals in February called for a net tax cut of only $20 billion; the final version provided $95 billion. Even so, the administration had significant influence on the content of the tax changes, such as blocking the Republican proposal to index capital gains taxes. The Republicans gained a great deal of their agenda as well, including a balanced budget by 2002, significant tax cuts, and a capital gains tax cut that had been sought since the 1980s. In the end, both sides declared victory.

Would the agreement really result in a balanced budget? Given the economic conditions that prevailed at the end of 1997, CBO concluded that it would.40 Economic and technical changes contributed as much to bringing the budget into balance as the policy changes enacted in the two bills.41 Because of greater-than-expected economic growth, the deficit in 2002 was projected to be $89 billion less than under the assumptions used at the start of the year. Technical changes in making estimates of revenues and spending knocked another $36 billion off the deficit projection for 2002. Policy changes would reduce the deficit by $95 billion that year, or about 40 percent of the total reduction. The agreement reached as part of the FY 1998 budget was not nearly as large in real dollars of deficit reduction as the much-maligned budget deals in 1990 under
Bush and in 1993 under Clinton. Figure 7–1 compares the net five-year deficit reduction in all three plans in constant 1997 dollars.

By a margin of 41 percent to 32 percent, the public gave the Congress more credit than the president for the agreement, and by 39 percent to 33 percent, they believed that the Republicans got more of what they wanted than the president did. For the first time in twenty-three years, public approval of Congress was higher than disapproval: 45 percent to 39 percent. The numbers had been nearly reversed a few months earlier. Despite the political gains for the Republicans, Clinton had helped himself as well. His popularity ratings moved above 60 percent, a level comparable to that of Reagan and Eisenhower at similar points in their second term. Nearly 70 percent of the people believed that things in the country were going well. Reaching a plan to balance the budget proved to be good politics for everyone involved.

**Conclusion**

The bipartisan budget agreement in 1997 was historic. For the first time in a generation, Congress and the president had put revenues and expenditures on a realistic path to reach balance. Driven by the booming economy, the budget
would actually be balanced in two years instead of five. The 1996 elections settled the division of power in a way that the 1994 elections had not. If a balanced budget was to be agreed on, congressional Republicans would have to work with the Democratic president. An agreement was achieved because both parties were able to take out the most unpalatable items and still protect issues important to their core constituencies.

Once again, congressional budget rules helped facilitate the enactment of a balanced budget by packaging complex tax and spending measures in two reconciliation bills, subject to a final up or down vote and protected on the floor from amendment and dilatory tactics. The 1997 balanced budget agreement reflected the enhanced capacity of Congress in macrobudgeting. Congress had come a long way from the era of subcommittee-based scrutiny and incremental adjustment of agency appropriations described by Richard Fenno in 1965. What emerged is a multistage bargaining process involving both branches, first negotiating the broad outlines and then filling in the details at increasing levels of specificity. No major changes in budget rules were part of the balanced budget agreement. However, the failed balanced budget amendment and the tax increase supermajority amendment were two Republican attempts to adopt constitutional rules that would both institutionalize their policy positions and enhance their reputation with voters.

The Omnibus Budget Reconciliation Act of 1990 (OBRA-90) and the Budget Enforcement Act (BEA) helped make the balanced budget agreement possible in several ways. OBRA-90 produced savings of $593 billion in 1997 dollars. Second, the enactment of the BEA and the scrapping of GRH deficit targets ushered in a more “realistic” era of congressional budgeting, with PAYGO and discretionary caps where Congress concentrated on factors within its control rather than economic and technical factors driving the deficits. Third, the initial failure of the 1990 budget agreement held important lessons for leaders in 1997. Top-level negotiators avoided excessive detail, instead setting broad parameters and letting the committees fill in the details. They also avoided a “summit” and were careful not to get too far out in front of the rank and file in terms of major policy issues.

Although making relatively few changes in budget rules, the Omnibus Budget Reconciliation Act of 1993 (OBRA-93) also helped make possible a budget agreement in 1997. It extended the appropriations caps and many of the key provisions of the Budget Enforcement Act. Although the economic recovery was already underway, the 1993 deficit reduction package instilled confidence in Wall Street and helped stimulate robust growth and lower interest rates. The result was significant progress in deficit reduction under Clinton, from a deficit of $290 billion in his first year in office, to only $22 billion in 1997.
Does the bipartisanship in enacting the 1997 balanced budget agreement weaken partisan explanations of congressional budgeting or the importance of divided government? Republican leadership in Congress was less centralized in 1997 than it had been in 1995, Gingrich’s first year leading a majority. Committees were regaining some autonomy, and there was dissatisfaction with the speaker’s leadership after only two and a half years. He would be forced out after the 1998 elections. More committee chairs played key roles in negotiating the budget agreement, but the Republicans remained highly cohesive. In the Senate, minority Democrats had some participation in the process. Engaging in what was called “triangulation,” the Democratic administration negotiated primarily with congressional Republican leaders, leaving minority Democrats on the sidelines for the most part. This undermined Democratic cohesion in Congress, as we saw in the voting patterns. Because of the realistic possibility of actually balancing the budget for the first time in thirty years, the Clinton administration and congressional Republicans made important concessions to each other. The compromise was greatly facilitated by the improved deficit forecasts and the “windfall” in May that reduced the total amount of deficit reduction that had to be achieved. Although a notable achievement, the balanced budget agreement was not comparable in scope to either OBRA-90 or OBRA-93 as Figure 7–1 indicates.

Despite the contrast between the 1997 balanced budget agreement and the 1993 Democratic budget package, there is still evidence of fundamental underlying partisan divisions in budgeting and the importance of party leaders and strong budget rules. It was reflected in the continued efforts of Republicans to push budget-related constitutional amendments. It was reflected in the level of rhetoric and rancor in implementing the outline of the budget agreement in May. It was reflected in some party votes along the way. Comparisons between the 1993 and 1997 reconciliation bills reflect the significant impact of divided government in the content of deficit reduction agreements. Unlike Bush in 1993, Clinton often used the veto and the threat of a veto in 1997 to increase his leverage in bargaining with Congress. The veto of the supplemental appropriation act in June seemed to be particularly efficacious for the president. Republicans knew that the veto threat was credible and that since they could not override, they had to deal. Subsequently, Democratic positions were protected in education, Medicare, and the environment.

Partisanship in Congress would reach new heights in 1998 and 1999 with the impeachment proceedings against President Clinton. After a balanced budget was achieved in 2000, it would become clear that partisanship was
not limited to budgeting under deficits. As we will see in the next chapter, Republicans and Democrats would remain polarized over what to do with the surplus for several years. Budget issues would remain at the forefront after the 2000 elections which produced a return to unified government, the first unified Republican government since 1953.