CHAPTER 8


When the 107th Congress convened in January 2001, the Budget and Impoundment Control Act of 1974 had been in place for more than a quarter-century. Congressional budgeting had evolved, surviving challenges and criticisms and emerging as a core element of the legislative process and a key tool of party leaders. Over the next three years, it would again be a critical element in determining the results of major budget initiatives but in a political and economic environment that had dramatically changed. With Republican George W. Bush in the White House, and unified Republican government for the first time since 1953, tax cuts would be at the center of the policy agenda. Despite a recession and a return to deficits, a midsession change in party control of the Senate in 2001, the tragedy of September 11, and wars in Afghanistan and Iraq, major tax-cutting legislation would pass in 2001 and 2003. These legislative enactments present the latest cases and a final opportunity to assess the impact of rules and institutions, the role of parties, and the consequences of party control of government on congressional budget decisions.

Tax Cuts and the Budget, 2001

The Political and Economic Environment

The context for national budgeting would be shaped by the 2000 elections. Bush would assume the presidency having lost the popular vote in one of the most controversial elections in history which only enhanced partisan animosity in the Congress and the country. The 2000 elections returned a Republican House of Representatives but produced a 50–50 tie in the Senate. After weeks of negotiations, Republican and Democratic leaders in the Senate
worked out a unique power-sharing agreement which kept Senator Trent Lott (R-MS) as majority leader and maintained an equal number of Republicans and Democrats on each committee but with a Republican chairing each panel. Tom Daschle (D-SD) remained as minority leader. With Vice President Cheney producing the 51st vote in the Senate, Bush began his term with the narrowest imaginable unified party control of government. In the House, Dennis Hastert (R-IL), who had assumed the speakership after Newt Gingrich resigned from Congress after the 1998 elections, remained in that position. Representative Jim Nussel (R-IA) took over as Chair of the House Budget Committee. Senator Peter Domenici (R-NM) remained as Chair of the Senate Budget Committee.

Congressional Republicans, who had maintained majority status for the fourth consecutive election, faced a very different political situation with a Republican president. For the last six years of Clinton’s presidency, Republicans had used the budget resolutions to shape the negotiations with the president. Even though Clinton and the Republican Congress had successfully balanced the budget, Clinton had effectively used the veto and the veto threat to check Republican budget priorities and to promote Democratic programs such as Medicare and education.1 According to spatial models of the legislative process, change in party control of the presidency would change the “veto pivot,” shifting the area of policy agreement between president and Congress and changing the dynamics of interbranch negotiations.2

Bush and the 107th Congress would begin shaping the broad outlines of the federal budget in an economic environment far different from that of their recent predecessors. In January 2001, budget projections showed huge surpluses as far as the eye could see. The Congressional Budget Office forecast a budget surplus of $5.6 trillion over the next ten years.3 Nearly half of these projected surpluses were in the general funds portion of the budget rather than in the Social Security and Medicare trust funds, meaning that the funds were available for tax cuts, spending increases, or debt reduction. As we have seen in prior years, projections can change quickly. The rapid change from surpluses to deficits between 2001 and 2003 was one of the most dramatic reversals in the history of U.S. national budgeting.

Dealing with surpluses was certainly a much more pleasant task than dealing with deficits, but the emergence of the surpluses appeared to have little impact on the budget process in Congress, except for the fact that congressional spending discipline relaxed considerably. The budget resolutions in 1999 and 2000 appeared to be less consequential than in prior years, as appropriators and program advocates pushed discretionary spending
upwards. The period after the 1997 balanced budget agreement was not characterized by significant changes in budget rules and institutions as had occurred in prior years. Some provisions of the Budget Enforcement Act were allowed to expire. Reconciliation and the protections it provides from amendment and obstruction would prove critical in budgeting in 2001 and 2003 as it had in earlier major budget packages.

Having the budget in surplus did not appear to diminish the perceived political stakes for the parties. Despite the surpluses, bipartisan agreement could not be reached on shoring up entitlements: projections still showed both Medicare and Social Security trending toward insolvency in the coming decades. Republicans and Democrats battled over what to do with the surpluses, how much to cut taxes, how much public debt to retire, and whether to spend additional monies on defense or domestic programs. From the perspective of President Bush and congressional Republicans, however, unified Republican control of the White House and the Congress appeared to be a favorable situation for delivering the largest tax cut in history.

The Bush Tax Cut Plan

The tax cut package had its genesis long before Bush's inauguration as the 43rd President of the United States. Along with education reform, tax cuts were at the center of the Bush campaign and a favorite theme among Republicans and conservatives. The projection of large surpluses gave Bush the luxury of pushing for a politically popular tax cut rather than a tax increase as his father and Clinton had done. Even Democrats acknowledged that some tax cuts were appropriate, but they wanted much smaller cuts targeted toward lower-income groups. There was a sense of urgency among Republicans, however, because signs of economic weakening and a possible recession were already on the horizon. Democrats warned that excessive tax cuts could lead to a return to deficits.

The administration started a lobbying campaign for the tax cuts shortly after the inauguration. The first week of February, Treasury Secretary Paul O'Neill came to Capitol Hill to outline the administration’s proposed tax cuts while the president mixed public events with private meetings to promote his agenda. “I want the members of Congress and the American people to hear loud and clear,” the president said. “This is the right-size plan, it is the right approach, and I'm going to defend it mightily.” Bush had chosen a total reduction for the tax cut of $1.62 trillion over ten years. Some of the main proposals included the following:
• **Reduce income tax rates.** Create a new 10 percent bracket and lower the rates on all other brackets, moving the maximum rate of 39 percent to 33 percent. The estimated cost was approximately $724 billion.

• **Phase out estate taxes.** Eliminate what Republicans call “death taxes” and gift taxes. The total cost was approximately $236 billion.

• **Child credits.** Increase tax credits for taxpayers with children at a cost of $162 billion.

• **Eliminate the “marriage penalty.”** Provide tax relief to two-income married couples who pay more tax than one-income couples at the same income level. The approximate cost was estimated to be $88 billion.

• **Charitable contributions.** Increase the number of taxpayers who are allowed to deduct contributions to charities. The cost was estimated to be $80 billion.

• **Research and development tax credit.** Give large corporations a benefit for spending on R&D at a cost of $24 billion.

Bush formally presented the outline of his budget proposals in a televised speech to Congress February 27.

**House Action**

The House of Representatives wanted to move the tax cut package quickly, even before the budget resolution was adopted. Republican Party leaders wanted to take up a number of tax cut bills immediately, some that went well beyond what the president was asking. This move was criticized by Democratic leaders and others who felt that it undermined the comprehensiveness of the budget process. Many of the more conservative House Republicans did not believe that Bush’s proposals went far enough and had aspirations of expanding the scope of the tax cuts. They wanted the $1.6 trillion to be a floor for tax cuts, with some of the most enthusiastic tax-cutters talking about cuts as high as $2.2 trillion over ten years.³

Democrats, lacking a president of their own party in the White House for the first time in eight years, were having difficulty in agreeing on a position that would be an alternative to the Republican plan. With the size of the surplus, most Democrats felt that some tax cuts were appropriate but that the $1.6 trillion number was dangerous and irresponsible. A consensus began to emerge for a figure of around $700 billion in tax cuts over ten years, focusing more of the
cuts on lower- and middle-income groups. This figure was later expanded to $900 billion. In the twenty years since Reagan’s major tax cut, the number of conservative southern Democrats had steadily been reduced. Some, like Phil Gramm, had switched to the Republican Party; others were defeated and replaced by conservative Republicans. The successor to the “Boll Weevils” of the 1980s was the so-called Blue Dog Democrats. Formed in 1995, by 2001 the group counted thirty-three House Democrats as members, including founder Charles Stenholm (D-TX) who had earlier been one of the Boll Weevils who helped pass Reagan’s economic and budget plan. With a slim eleven-vote Republican majority in the House, many believed that the Blue Dogs would play a key role in ensuring the passage of Bush’s tax cuts. This would prove not to be the case because of the degree of party unity among House Republicans and the control of the budget process by Republican leaders.

As a result, when markup of tax legislation began in the Ways and Means Committee, input from the Blue Dog Democrats was neither sought nor listened to when it came. The committee took up and expanded the largest of the president’s proposals—the across-the-board rate cuts that would reduce revenue by $958 billion. After just two days, the Ways and Means Committee reported out the rate-cut bill (HR 3) by a straight party line vote of 23–15. Democrats, including Blue Dogs, were critical of the bill because it was enacted before the budget resolution and because they were completely excluded from the process. The bill was moved quickly to the floor for debate and passed on March 8 by a vote of 230–198. Ten Democrats joined unanimous Republicans in approving the bill. The Ways and Means Committee announced plans to move four other tax bills before the spring recess on April 5, before the budget resolution would be approved.

On March 21, markup of the FY 2002 budget resolution began in the House Budget Committee. In February, the House had passed “lockbox” legislation to reserve surpluses in the Medicare and Social Security trust funds for debt reduction only. This largely symbolic effort to reassure voters that these two programs would not be touched received overwhelming bipartisan support in a 407–2 vote. It would be encompassed in the House version of the budget resolution. The resolution, drafted by HBC Chair Jim Nussle, would essentially be rubber-stamped by the committee majority. The major Republican deviation from the Bush proposals was to increase the size of the tax cuts. Because of problems with the size of the tax cut in the Senate, this was as much as anything a negotiating strategy for the House-Senate conference to follow. Another issue of concern was the target for discretionary spending. Conservative Republicans hoped to ratchet back on the rapid growth of discretionary spending that had occurred at the end of the Clinton
administration, but appropriators were pushing for significant growth above inflation. The House version of the budget resolution limited growth in FY 2002 to 3.9 percent. After one day of markup, the House Budget Committee reported the budget resolution by a straight party line vote of 23–19.

The House took up the budget resolution on the floor March 28. Under strict rules for debate and amendment, the outcome was close but never in doubt. The resolution was adopted by a nearly party line vote of 222–205. Only three Democrats and two Republicans crossed the aisle and voted with the other party. That translates into Democratic Party unity of 98.5 percent and Republican unity of 99 percent.

**Senate Action**

With the Senate tied 50–50, the political dynamic in the Senate was much different than in the House. Only one Democrat, Zell Miller (D-GA), announced support for the president’s tax cuts proposals at the level of $1.6 trillion. That meant that Majority Leader Lott and the White House could only lose one of the fifty Republican votes in order to allow Vice President Cheney to cast the tie-breaking vote. However, several Republicans had expressed reservations about the size of the proposed tax cuts and, despite intense lobbying, did not seem willing to budge. These reluctant Republican moderates included Lincoln Chafee (R-RI), Arlen Specter (R-PA), and James Jeffords (R-VT). Some members suggested adding a “trigger” or “circuit-breaker” provision to the tax cuts that would repeal them in future years if the surplus projections fell short. The administration and Republican leaders opposed any such provisions. Senate Finance Committee Chair Charles Grassley (R-IA) opted against moving tax legislation before the budget resolution. He recognized that the Senate would need to consider the tax cuts under the protection of the budget rules (see below). He also made a much more bipartisan appeal than his House counterparts, saying that he hoped to have a tax package that could include Democratic support. His efforts were hampered by anger among Senate Democrats about how their counterparts had been treated in the House process.

There was little bipartisanship on the Senate Budget Committee either. Still, SBC Chair Domenici drafted a resolution that attempted to gather support from pivotal moderate members. Rather than follow the House model of using the president’s proposed $1.6 trillion in tax cuts as a floor, the Senate resolution would make it a ceiling. The Senate resolution would also encompass a trigger mechanism to be specified later by the Finance Committee. The
resolution kept the president’s figure for growth of discretionary spending similar to the House version. These gestures were not enough to sway a single Democrat on the Senate Budget Committee. With the panel evenly divided (eleven Republicans and eleven Democrats), the result was that no resolution could pass out of committee. However, under the rules of the budget process, party leaders could bypass the committee altogether and bring the resolution directly to the Senate floor. Its success there would depend on whether the budget resolution could be used to provide protection to the tax cut bill through its reconciliation instructions.

Reconciliation Controversy

Reconciliation had been a critical part of congressional budgeting for twenty years but still remained controversial. As we have seen in earlier chapters, it had turned out to be a critical institution in the deficit reduction efforts of the 1980s and 1990s. Once the budget headed toward balance, however, a new controversy emerged: whether reconciliation could apply to tax cuts as well as deficit reduction. In 1996, Senate Parliamentarian Robert Dove made a crucial ruling allowing reconciliation legislation to be used for tax cuts. Democrats argued that reconciliation could be used only for legislation that would reduce the deficit. The ruling was appealed by Minority Leader Tom Daschle (D-SD), but the Republicans prevailed in a straight party line floor vote, establishing a precedent.\textsuperscript{12} Dove restricted his ruling, however, saying that any tax cuts that were moved under reconciliation could not extend past the time frame of the budget resolution.\textsuperscript{13} Republicans noted that the 1997 balanced budget agreement, implemented in the form of two reconciliation bills, included tax cuts. In 2000, Republican leaders had enacted a tax cut eliminating the so-called marriage penalty as a reconciliation bill. To allow the tax cut under reconciliation rules, they added provisions that it would expire (or “sunset”) in five years, the time frame covered by the budget resolution. Clinton vetoed the bill. In 2001, the controversy over the use of reconciliation arose again with regard to the Bush tax cut package. Leading the Democrats’ opposition to allowing reconciliation to be used for the tax cuts was Senator Robert Byrd (D-WV), one the original architects of the 1974 Budget Act and author of the Byrd rule which restricts amendments to reconciliation bills. Making matters more difficult for Republicans, Parliamentarian Dove was beginning to have doubts about his original 1996 ruling. Domenici and Majority Leader Lott were ultimately successful in getting reconciliation protection for the tax cut bill in the Senate. Even if Dove had ruled against them, his ruling could have
been overturned by a simple majority vote. Recognizing that the Democrats would lose in a party line vote, Byrd and Daschle declined to force the issue to a vote, recognizing that if they lost the vote, the precedent would be strengthened further. To allow larger tax cuts, Republican leaders expanded the time horizon of the budget resolution from five years to ten. In the Senate, to keep reconciliation protection, all of the tax cut proposals would expire after ten years. Most felt, though, that ten years down the road, it would be politically unpopular to let them expire.

The Senate took up the budget resolution, and intense negotiation and bargaining took place behind the scenes among Republicans. Despite pressure from the White House and Republican leaders, Specter, Jeffords, and Chaffee refused to support tax cuts as large as $1.6 trillion. The key vote was taken on April 4 when the three joined the Democrats in approving an amendment to reduce the tax cuts figure by $448 billion and use half the money for education. After making some of the tax cuts retroactive, the total in the budget resolution for tax cuts became $1.27 trillion over ten years. With that compromise reached, the budget resolution passed the Senate by a more comfortable margin, 65–35. Fifteen Democrats voted with the unanimous Republicans. The Senate version also called for a discretionary spending target that was $28 billion higher than the House version, an 8 percent versus a 4 percent increase. This would also be a major dispute in conference.

**Conference Committee Action**

Congress returned to Washington after a two-week Easter recess, and the Conference Committee on the FY 2002 budget resolution convened April 25. The partisan tone of the conference was reflected in the comments of Senator Domenici who told the Democrats, “We don’t expect you to sign it [the conference agreement] so we don’t expect you to be needed.” Except for a handful of centrist Democrats invited to the White House, the administration was also largely ignoring Democratic leaders in their legislative lobbying. The main negotiations were between administration representatives and Republican congressional leaders who reached an agreement on April 30. It provided for a tax cut of $1.35 trillion, around 82 percent of what Bush had proposed, and also accepted the House and administration number for growth in discretionary spending. Most expected, however, that spending would exceed the target.

Another problem with the budget rules arose May 3 concerning the placement of a $5.6 billion contingency fund in the budget resolution. Senate
Parliamentarian Dove ruled that inclusion of that item in the resolution would make it subject to a sixty-vote point of order on the Senate floor. Eventually, the fund was removed from the resolution, but, frustrated with the Parliamentarian’s rulings, Majority Leader Lott relieved Dove of his duties.\textsuperscript{16}

The House voted 221–207 to approve the conference report on the budget resolution on May 9. At a meeting of the Blue Dog Democrats the day before, a vote was taken to officially oppose the resolution. As a result, only six Democrats joined the majority while three Republicans voted against it. The Senate approved the resolution the next day by a vote of 53–47. Unhappy with the lower discretionary spending target, only five Democrats voted for the resolution while two Republicans (Chaffee and Jeffords) voted against. This measure, not needing the president’s signature but binding only on subsequent action, paved the way for the adoption of the tax cuts.

\textit{Passage of the Tax Cuts}

Both the House Ways and Means Committee and the Senate Finance Committee moved into high gear on the reconciliation tax bills after the passage of the budget resolution. The House had already passed its third tax cut bill of the session which would have to be revised in the new comprehensive bill. Although the resolution specified the total amount of the tax cuts, many critical decisions remained on the details, particularly differential treatment of lower-, middle-, and upper-income taxpayers. The House passed its version on May 16 by a vote of 230–197, picking up a few additional Democratic votes. The House bill reaffirmed the centerpiece of the president’s proposals, the across-the-board income tax rate cuts.

In the Senate, Finance Committee Chair Grassley and the ranking minority member, Max Baucus (D-MT), attempted to work out a bipartisan compromise that could pass by a larger margin. Grassley was at odds, however, with Majority Leader Lott who threatened to take the bill away from the committee and take the legislation directly to the floor. The administration was still lobbying hard to get as many of its desired provisions included in the $1.35 trillion total.\textsuperscript{17} Led by Minority Leader Daschle, the Democrats continued to oppose the bill, keeping the Senate in session for four days and two nights. Two sudden changes in the political and economic environment changed the strategy of the administration—they decided to compromise on the best deal they could get and declare victory. The Senate passed its version of the Tax Cut Reconciliation Bill on May 23 by a vote of 62–38.

Why had the administration quickly settled? The first change involved
new and troubling budget projections showing that the economy was slowing and that the surpluses would not be as large as expected. Second, Senator James Jeffords announced May 22 that he was leaving the Republican Party and would become an Independent, caucusing with the Democrats. Jeffords had been frustrated with his treatment by the administration and unhappy with Republican leaders in the Senate on a number of issues, particularly funding for education. That meant that the country’s return to unified Republican control of the presidency and both houses of Congress would be short-lived. The Democrats would take over the Senate 50–49–1, Daschle would become majority leader, and committees would be reorganized, giving the Democrats the majority and the chairmanship on all of them. Divided government would return for the remainder of the 107th Congress. This was a distressing shock to the administration and congressional Republicans. Under the power-sharing agreement worked out earlier in the year, a contingency had been arranged if one of the two parties took control. Jeffords decided that his switch would become official on the day the tax bill reached the president’s desk.

After learning of Jefford’s switch, the administration and Republican leaders struck the best deal they could get. President Bush urged the Congress to finish its work on the tax bill immediately, noting that “our economy cannot afford any further delays.” House-Senate conferees tied up loose ends and sent the compromise package back to their respective houses. The compromises broadened the support for the bill among Democrats. The House passed the final bill 240–154, with twenty-eight Democrats voting for the bill and twenty-nine abstaining. No Republicans voted against the bill. In the Senate, twelve Democrats supported the compromise and seven abstained in a final vote of 58–33. Republicans Chaffee and John McCain (R-AZ) voted against final passage. In a rush to recess for Memorial Day weekend and with Senator Paul Wellstone (D-MN) needing to go to the hospital immediately for back pain, the Senate cut short its final debate and sent the bill to the president’s desk.

The Tax Cut Reconciliation Act was signed by President Bush June 7 and was hailed as a great victory for the administration. Many Republicans were dissatisfied, however, and promised to seek additional cuts that had been deleted. The final bill lowered top rates but not to the 33 percent that the administration wanted. The rate cuts reduced revenues by $875 billion over ten years. Estate and gift taxes were reduced by $138 billion, the marriage penalty by $63 billion, and child tax credits by $172 billion; and retirement provisions lowered revenues by $29 billion. As required under reconciliation rules, most of the cuts would sunset in 2011, requiring further action by
Congress down the road if they were to be made permanent. Two years later, after the tragedy of September 11 and in an economy having difficulty recovering from recession, President Bush would revisit the issue of tax cuts.

**Tax Cuts, 2003**

The war on terrorism had created a very different budgetary environment. At least in the early stages, President Bush was likely to get whatever he said was necessary to protect homeland security and to pursue the war on terror. So despite the worsening budgetary situation in terms of deficits, other policy objectives were deemed more important. Economic stimulus was one of those objectives, as the economy had languished for over two years. While the recession had ended in 2001, economic growth was tepid, and unemployment continued to increase. Despite a record loss of jobs during the first two years of his administration, Bush had campaigned hard for Republican congressional candidates in the fall of 2002. With his record after 9/11, a war in Afghanistan, and a looming war in Iraq, Bush helped Republicans recapture Congress in the 2002 midterm elections.

Republicans picked up several seats in the House and also picked up two critical seats in the Senate to give them a 51–49 majority. Although the narrow margin meant that a handful of moderates would continue to have significant bargaining position in the 108th Senate, the Republicans would organize the chamber and chair all the committees after eighteen months of Democratic control under Majority Leader Tom Daschle. The Republicans would have a new Majority Leader in the Senate. Former leader Trent Lott became ensnared in a controversy over ill-considered public comments at Senator Strom Thurmond's birthday party and was forced to step down. The Republican senator from Tennessee, Dr. Bill Frist, was selected as majority leader despite his inexperience. Daschle would remain as minority leader. In the House, Speaker Hastert was selected for a fourth term. Senator Don Nichols (R-OK) took over as the new Senate Budget Committee Chair, and the committee itself had become much more conservative in the 108th Congress than in the 107th. The seven new Republicans on SBC had an average rating by the American Conservative Union (ACU) of 93.8 percent compared to an average ACU rating of 79.8 among the six Republicans who had left the committee. The ranking Democrat on the committee, Kent Conrad (D-ND), charged that moderates had been “purged” from the Budget Committee.

In the two years since the first package of tax cuts passed, budget forecasts
had made one of the fastest (and unfortunate) turnarounds in history. From projections of a decade of trillion dollar surpluses, by 2003, estimates showed deficits growing in size and duration. The budget process had suffered in 2002 under divided government. For the first time since its inception, no budget resolution passed the Congress. This played havoc with the appropriations process, and by the start of the 108th Congress, eleven of the thirteen spending bills from the previous Congress were still not enacted. One of the most positive aspects of having budget surpluses for members of Congress was that they no longer had to vote for an extension of the public debt ceiling. No extension of government borrowing authority was needed between 1997 and 2002. In 2002, however, as the surpluses turned into deficits, Congress was forced to increase the debt limit. It would need to be extended again in 2003 as well. Several other key budgetary changes had occurred in 2002 largely below the radar, such as abandoning spending caps and removing the lockbox provisions to protect entitlements that had been so prominent in the days of surpluses.

A new rule for assessing, or scoring, tax bills would be introduced in 2003 under unified Republican control. For years, tax cut proponents argued that traditional static estimates of the costs of tax cuts overestimated the loss of revenue by not including the revenue gains caused by economic growth. They proposed instead a method called “dynamic scoring” which factors in the projected revenue gains in the future. Democrats argued that dynamic scoring was a bogus system designed by Republicans to hide the real costs of tax cuts. In January 2003, the House adopted a new rule for the 108th Congress requiring dynamic scoring for all bills moving through the Ways and Means Committee. This system would be supported by the new head of CBO, Douglas Holtz-Eakin, a tax cut advocate who came to Capitol Hill from the White House.

Another issue concerning the budget rules in 2003 was the question of the duration of the budget resolution. Over the past twenty-eight years, budget resolutions covered more and more years as they became more comprehensive. For the first five years in the 1970s, resolutions covered only one year, allowing gimmicks such as moving the date of a pay raise by one day to the next fiscal year to create an apparent “savings.” In the 1980s, resolutions were extended to cover three years, and by the 1990s, five years was the norm. The 1997 balanced budget agreement was implemented through a seven-year plan. The first ten-year budget resolution was passed in 1999 and again in 2001, in the latter case, to incorporate as large a tax cut as possible. But this issue divided Republicans in 2003. Many felt that the ten-year time horizon was impossibly unrealistic and that with rising deficits, resolutions should be limited to five years. On the other side, the administration was
pushing for a ten-year duration to allow as large a package of tax cuts as possible. The president’s own budget, however, presented Congress with only a five-year time horizon. SBC Chair Don Nichols announced that he favored returning to a five-year budget resolution. These and other rules changes would help shape the tax cut package in 2003.

**The President’s Proposals**

Buoyed by the 2002 election results, the Bush administration wanted to press for another major tax cut package in 2003. Given the continued sluggish economic growth, the Bush tax cuts would be promoted more as a “growth and jobs” package than had the 2001 plan. On January 6, the president unveiled the outlines of his plan which would cost $674 billion over ten years:

- Eliminate taxation on stock dividends paid to individuals at a cost of $364 billion.
- Reduce rates on personal income taxes at an estimated cost of $64 billion.
- Further eliminate the marriage penalty at a cost of $58 billion.
- Expand the income limit to qualify for the lowest tax rate at an estimated cost of $48 billion.
- Provide incentives for small business, aid to the states, and other provisions estimated to cost $49 billion.

Reaction to the plan was predictable. Democrats immediately attacked the idea on the basis that the country could not afford any more tax cuts because of the costs of war and recession. Some Republicans felt that the proposals did not go far enough, and House Majority Leader Tom Delay (R-TX) complained about the lack of a capital gains cut. The growth and jobs package was the administration’s centerpiece and highest priority, but it was only the beginning of other tax cuts they would propose in 2003. In his budget proposal released in February, Bush added to his list of desired tax cuts:

- Accelerate the effective date of the 2001 tax cuts at a cost of $262 billion over ten years.
- Extend some of the other tax cuts adopted in 2001 to the year 2013 at a cost of $601 billion.
- Provide tax incentives for health insurance purchases, charitable contributions, education expenses, and other purposes at a cost of $190 billion.
All together, the Bush administration was proposing $1.49 trillion in new tax cuts, nearly as much as he had asked for in 2001. With no immediate need to extend the tax cuts that would not expire until 2011, and with Democrats arguing that some of the upcoming tax cuts should be suspended rather than accelerated, most of the focus remained on the growth and jobs package. The administration undertook an extensive lobbying campaign. Newly appointed Secretary of the Treasury John Snow led the administration effort on the Hill.

**House and Senate Budget Resolutions**

From the start of congressional action, it became apparent that the full scope of Bush’s tax proposals, now grown to $1.57 trillion over eleven years, would not be incorporated in the concurrent resolution on the budget for FY 2004. Given the alarming growth in deficit projections, the cost was simply too high for many congressional Republicans. Republican leaders did concede to the administration, however, in agreeing to a duration of ten years in the resolution so that a larger amount of tax legislation could be encompassed under reconciliation. Once again, the procedural protection of reconciliation would be necessary to get a tax cut package through the Senate with its narrow Republican majority. The majority leadership also agreed to put two other controversial measures in the reconciliation bill: the debt limit and drilling in the Alaskan National Wildlife Refuge (ANWR). The Bush stimulus package was calculated by Congress to cost $726 billion over a period of eleven years.

The growing deficit projections were causing serious strains within the Republican majorities. By March, the OMB was predicting a deficit of $304 billion for 2003, with a larger deficit in 2004. The House and Senate Budget Committees proceeded to mark up companion versions of the budget resolution, but they moved in different directions. The House committee, concerned about the deficits, tried to offset the costs of tax cuts by making significant cuts in spending. The Senate committee followed more closely along the lines of the president’s proposals, but several prominent moderates (not on the committee) expressed a desire to reduce the tax cut package to $350 billion. On March 13, both budget committees reported the budget resolution by straight party line votes, 24–19 in the House and 12–11 in the Senate. The Senate committee projected deficits through 2013. As war in Iraq appeared imminent, however, public attention shifted away from the budget.

Democrats were having difficulty finding any coherent policy alternative
to the president and congressional Republicans. Most of the half-dozen plans put forward by various Democratic members focused strictly on short-term stimulus, providing immediate tax relief for one year only at a cost of $100 billion to $150 billion. They remained unified in opposing Bush’s proposed cut in the taxation of stock dividends, arguing that it was another example of administration policies favoring the rich.

Concerns with the costs of the war in Iraq added to deficit worries. A number of House Republicans were also concerned about the politically damaging $200 billion cuts in Medicare that were included in the HBC’s proposed budget resolution and other spending cuts. These cuts were eventually removed from the resolution in order to gain support within the party. Even so, the vote was unusually close in the House, which adopted the budget resolution on March 21 by a vote of 215–212. The Speaker pleaded with reluctant Republicans not to allow an embarrassing defeat during the first week of the war, and Vice President Cheney made a number of calls to wavering members. House leaders kept the vote open after Democrats edged ahead. Finally, two Republicans switched their votes to provide the needed margin, and the vote was closed. Twelve Republicans and 199 of 200 Democrats voted against the resolution.

Shrinking the Tax Cuts

In the Senate, Democrats tried to shrink the size of tax cuts that would be allowed in the resolution. They succeeded in passing an amendment on the floor of the Senate 52–47 reducing the tax cut from $726 billion to $626 billion and using the other $100 billion to create a reserve fund for war costs. The administration remained silent on the projected costs of the war, to the chagrin of members of both parties. Democrats were also successful in stripping ANWR drilling provisions from reconciliation protection, 52–48, when they were joined by eight Republicans. The most significant threat to the Republican plan, however, was a motion by Senator John Breaux (D-LA)—a moderate—to reduce the size of the overall tax cuts to $350 billion. After a week of debate over the resolution, Breaux’s amendment was defeated 38–62. Despite the margin of defeat, Breaux was actually much closer to victory than he appeared to be. When over the weekend of March 21 the Bush administration announced that the initial cost of the Iraq war would $74.7 billion, Breaux reorganized and revised the amendment. This time he was able to attract three Republican votes and united the Democrats. As a result, the amendment was adopted on a second try by a vote of 51–48. The Senate would go to conference with the House with a resolution that called for half the tax cuts.
The return to deficits was leading the House and Senate to once again have to deal with the debt limit and reconsider rules to enforce spending discipline. The deficits were causing government borrowing to bump up against the statutory ceiling that had been passed the year before. In the House, the Republicans had revived the old “Gephardt rule” which provides that once a House budget resolution is passed, a comparable debt limit extension is deemed to have been passed. This avoided a politically sensitive separate vote on the debt limit. Since the Senate had no such rule, it would have to pass a free-standing bill. Both House and Senate also considered some additional budget rules that would help slow the growth of spending. The fiscal discipline shown by Congress after the Budget Enforcement Act of 1990 had slipped during the surplus years, and many provisions of the BEA were allowed to expire. The pay-as-you-go rules were still in force, and Senate budget writers wanted to revive rules that would subject any legislation that violates budget limits to a sixty-vote point of order. A subcommittee of the House Judiciary Committee also revived the balanced budget amendment.

The Conference Committee negotiation was marked by complex bargaining and a critical side agreement that threatened to sharply divide Republicans. In the conference itself, the familiar strategy of splitting the difference was used to come up with a figure of $550 billion for tax cuts that could be included under the protection of reconciliation. The budget resolution was taken up in the House which met into the night, finally approving the 2004 budget resolution by a vote of 216–211 at 3 A.M. Every one of the 203 Democrats voting voted against the resolution, and they were joined by 7 Republicans.26

The task would be even more difficult in the Senate where Democrats and three or four moderate Republicans held fiercely to the belief that $350 billion was the largest amount of tax cuts the nation could afford given the war and the deficits.27 The only way that the Senate leadership could pass the conference version of the budget resolution was to make a promise to Republican Senators Olympia Snowe (R-ME) and George Voinovich (R-OH) that nothing would come out of the Senate Finance Committee with more than $350 billion in revenue losses. Even with this promise, the budget resolution vote ended up tied, and Vice President Cheney cast the decisive vote to give the Republicans a 51–50 victory. Democrat Zell Miller, as he had in 2001, voted with the Republicans, while McCain and Chaffee voted with the Democrats.

House Republican leaders were incensed when they learned the next day about the side agreement that Majority Leader Frist had made with moderates to get the crucial votes to pass the budget resolution.28 He was accused of double dealing and of making “rookie” mistakes. Speaker Hastert had
understood that he and the leader of the Senate had a definite deal on $550 billion as the size of the tax cuts. Frist went to the House to meet with leaders and apologize, but reportedly his apology was not accepted. Furthermore, there was no solution in sight as Snowe and Voinovich refused to support any tax cuts greater than $350 billion. Congress was left with a budget resolution that would allow $550 billion in tax cuts but a promise in the Senate that nothing more than $350 would be allowed to reach the floor.

**Enacting the Tax Cuts**

With the passage of the budget resolution, attention turned to the House Ways and Means Committee and the Senate Finance Committees who would draft the specifics of the tax reductions. With the White House focused primarily on the war in Iraq, and urging Congress to do what was “right for the soldiers,” congressional leaders more than the administration were shaping the tax bills. Bush was critical of the Senate version, noting that he wanted more than a “little bitty” tax cut. At the same time, Republican interest groups, including the Club for Growth, began trying to pressure Senators Voinovich and Snowe by launching a series of television ads in their home states of Ohio and Maine. The White House’s hopes for a larger tax cut lay in getting two more senators to support the $550 billion number.

The most controversial element of the president’s proposals remained the elimination of taxation on dividends. Despite Bush’s wartime popularity, Ways and Means Chair Bill Thomas (R-CA) announced that the dividend tax elimination had been taken out of the House bill. Instead, the bill would reduce the rate of taxation on dividends and on capital gains, not part of the president’s plan. The committee version also included an acceleration of the 2001 tax cuts for individuals and business tax breaks. On the Senate side, Finance Committee Chair Grassley was trying to find offsets to allow the tax cut to grow beyond $350 billion. Critics argued that it made no sense to raise taxes to allow a bigger tax cut. Grassley also attempted to insert earlier sunset provisions in the bill to make the officially scored version of the bill look lower. This too was not accepted.

The House Ways and Means Committee reported its tax cut bill on May 6 by a 24–15 party line vote, and it was taken up on the floor. There the leadership had little trouble gathering enough support among Republicans to pass the bill 222–203. Only three Republicans and four Democrats voted with the other party. In the Senate, in addition to limiting the overall size of the tax cut, leaders had been forced to add $20 billion in aid to the states to secure final passage of their version. Having lost the dividend taxation provisions in the
In the substitute bill, 50 percent of dividends would be exempted from taxation in 2003, and all dividends would be exempt from 2004 to 2006. This key element of the president’s original proposal would be on the table for the Conference Committee. The Senate tax bill again was narrowly passed, 51–49 on May 15, with three Democrats and three Republicans voting with the other party.

Under pressure to come up with a bill as soon as possible, conferees reached an agreement on the economic stimulus/tax cut package the week of May 19. Fearing a divisive conference, the administration intervened to urge the House to accept the lower Senate figure on tax cuts. However, the administration and House Republicans had the last laugh. By manipulating the dates that tax cuts were phased in and the dates when they were supposed to expire, Republicans were actually able to encompass most of the House tax cuts but have it officially scored as within the $350 billion ceiling. The rate on taxation of dividends was reduced to a top rate of 15 percent but not eliminated. Income tax cuts approved two years earlier to take effect in 2006 were accelerated. Child tax credits were increased to $1,000, and a number of tax breaks for business were included.

Votes in the House and Senate reflected familiar patterns and the razor-thin Republican majority in the Senate. The House passed the bill 231–200. Only one Republican voted against and seven Democrats voted for the package. In the Senate, a 50–50 tie was again broken by the vice president to give the Republicans a one-vote victory. Three Republicans and two Democrats defected. The administration, retreating from Bush’s earlier characterization of $350 billion as a “little bitty” cut, declared victory. Although the final number in the compromise was only 48 percent of what Bush had originally requested, if Congress did not allow the provisions to sunset in later years, the bill would actually produce tax cuts of almost double that amount over eleven years. The administration touted the tax cut, adjusting for inflation, as second only to the 2001 tax cut in the twenty-two years since the Reagan plan in 1981.

The political glow of the Republican-proclaimed success on the tax cut stimulus was dimmed by a little-noticed provision in the new law. In the week after the passage of the tax bill, Democrats seized on a study of its impact that revealed that in trying to keep the total amount of the cut under $350 billion, conferees had excluded 12 million poor children and their families from the expanded child tax credit. Because of the barrage of unfavorable publicity, Republicans quickly prepared legislation to extend the benefits to most low-income families. The Senate passed the legislation by voice vote, and the House eventually went along. Public support for the tax cut remained
lukewarm at best. A CNN/Gallup Poll revealed that only 47 percent of the public felt that the tax cuts were a good idea, while 43 percent thought they were a bad idea.40

Conclusion

Cutting taxes had been one of the top Republican priorities since Reagan. With Congress and the presidency under unified Republican control for the first time since 1953 and 1954, they were able to enact significant tax cuts in 2001 and 2003. In the latter case, although the overall size of the cut was substantially less than the administration wanted, it was achieved despite huge deficit projections and staggering costs associated with the war in Iraq.

The votes on budget resolutions and tax bills in 2001 and 2003 revealed two parties sharply divided. In some cases, party unity was as great in the Senate as in the House, but because of the slimmer majorities in the Senate, building a party coalition was significantly more difficult there. House leaders had more resources at their disposal to maintain party discipline, in one case holding a vote open long enough to get two wavering members to switch their votes. One Senate Democrat, Zell Miller, consistently voted with the Republicans, but three or four moderate Republican senators enjoyed disproportionate leverage on the outcome because of the narrow majority. In both 2001 and 2003, much of the bargaining focused on this handful of Republican moderates and resulted in a number of compromises on the part of the administration and congressional leaders. Overall, however, the voting alignments were consistent with high degrees of unity displayed by both parties.

By 2003, the congressional budget process had evolved into a critical tool for enacting major legislation. Budget rules were instrumental in facilitating the policy accomplishments of the Republican majority. Protection under reconciliation rules was virtually the only means by which tax cuts could be enacted in the Senate because of the narrow majorities. By limiting debate, restricting amendments, and preventing a filibuster, Republicans were able to enact nearly $2 trillion in tax cuts in the first three years of the Bush administration.

The 2001–2003 period provided a unique opportunity to compare unified and divided control of government. When the Democrats regained narrow control of the Senate in May 2001 and retained it until the start of the 108th Congress in 2003, the Bush administration and congressional Republicans were much more constrained in enacting tax cuts and shaping budget policy.
In 2002, under divided government, Congress was unable to pass a budget resolution for the first time since 1975, and eleven of the thirteen appropriations bills were not enacted until the new Republican Congress was sworn in the next year. Differences in divided and unified government were not as pronounced in terms of bargaining within the Senate. In all three years, the small group of pivotal moderate Republicans and Democrats in the Senate were the focal point of negotiations.

Party control of the presidency was crucial in determining the direction of budgetary policy in the early 2000s. It is apparent that had Democrat Al Gore won the Electoral College vote as well as the popular vote in the close 2000 election, policy outcomes would have been far different. Tax cuts of the magnitude that were enacted would not have occurred under a Democratic president and a Republican-controlled or a split party-controlled Congress. The change in party control of the presidency would have likely led to the same kind of veto bargaining that took place between Clinton and the Republican Congresses in the late 1990s.

What conclusions can we draw about the evolution of congressional budgeting over the past three decades? What can we conclude about the development of congressional institutions and specialized budget rules in terms of majority party control of macrobudgeting? What are the prospects for Congress to tackle the large deficits projected to 2012 and beyond in future years? How will the election results of 2004 and beyond help determine future deficits and budget policy? These and other questions are examined in the final chapter.