

GETTING TO YES: A HISTORY OF WHY BUDGET NEGOTIATIONS SUCCEED, AND WHY THEY FAIL

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Executive Summary

The case for a bipartisan “grand deal” to address the rising national debt is evident from annual budget deficits that are projected to exceed \$2 trillion within a decade. Over the next 30 years, Social Security and Medicare’s shortfalls are projected to drive \$84 trillion in new government debt. Yet increasing partisanship and polarization—both in Washington and among voters—have significantly diminished the likelihood of bipartisan cooperation to avoid a fiscal calamity.

This report examines 14 major deficit-reduction negotiations since 1980 to determine why some succeeded and others failed. The analysis reveals what I call three “primary ingredients,” some combination of which is necessary to achieve a successful budget deal: 1) a *penalty default*, or a painful policy that would be automatically implemented if a deal is not enacted by a certain date; 2) general *public support* for deficit-reduction across parties, with some common ground on the necessary reforms; and 3) *healthy negotiations*—presidents and lawmakers of both parties establishing positive working relationships based on trust, good faith, and a focus on compromise—seeking “win-win” solutions. The existence of at least two of these primary ingredients has always resulted in a successful deficit-reduction deal. Negotiations that took place with only one, or none, of them has almost always failed.

Secondary ingredients that help to close a successful a deal include an optimal mix of negotiators, an agreement on the problem, a reliance on neutral experts, a united communications front, a divided government, and, at times, a bipartisan commission.

Most successful budget deals over this period were enacted in the 1980s and 1990s. The 2000s have seen mostly failure due to the increasing inability of Republicans and Democrats to overcome their hostility and engage in healthy negotiations. At the same time, there has been an increasing public acceptance of deficits, and an unwillingness of the public to unite around deficit-reduction approaches.

Nearly all the projected growth in budget deficits over the next 30 years comes from Social Security and federal health benefits (particularly Medicare and Medicaid). Yet past deficit-reduction deals relied mostly on cuts to discretionary spending and payments to Medicare providers, which may not be able to sustain additional large reductions. Tax increases on the wealthy have played a modest role in past deals yet cannot fully close more than a small fraction of the fiscal gap. Most deficit reduction in coming years will need to come from entitlements—such as Social Security and Medicare (beyond more provider cuts)—that have often proved resistant to reform.

However, there is a path forward. Lawmakers will have to rebuild new penalty defaults that create an incentive for anti-deficit legislation. Advocates need to better educate the public on causes of consequences of ever increasing deficits. And lawmakers must overcome their mutual distrust of each other, and bring back an integrative negotiating approach that focuses on building win-win solutions rather than relying on deceptive tactics that attempt to take the most of a fixed pie.

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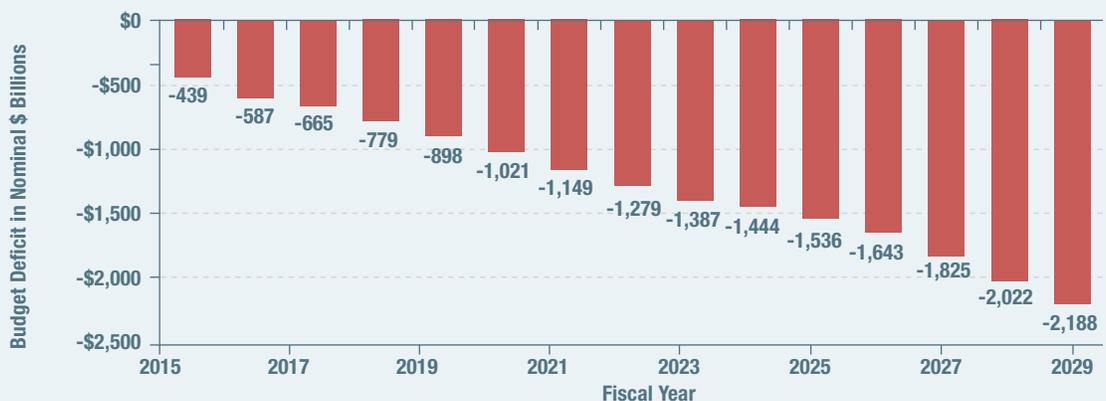
Introduction

Budget deficits are set to exceed \$1 trillion in the next year, on their way past \$2 trillion within a decade if current policies continue (**Figure 1**). Over the next three decades, the Congressional Budget Office (CBO) forecasts \$84 trillion in new deficits, which will bring the federal debt to 150% of GDP. And that is the rosy scenario—it assumes peace, prosperity, low interest rates, no new government programs, and the expiration of most of the 2017 tax cuts. More realistically, the debt could surpass 200% of GDP (**Figure 2**).

While much has been written about the dangers of the ever-growing debt—and the need for a bipartisan “grand deal” to avert a fiscal calamity—the reality is that Congress and the White House are moving in the wrong direction. Republicans are cutting taxes, while Democrats are promising massive new spending. Even if both parties were to finally agree that reducing the flow of red ink is a top priority, there is little reason to believe that they could successfully negotiate a deficit-reduction deal.

FIGURE 1.

\$2 Trillion Deficits Within a Decade



Source: OMB Historical Table 1.1 and Congressional Budget Office (CBO), “The Budget and Economic Outlook: 2019 to 2029,” table 5.1 (current policy), p. 109

This report analyzes 14 budget negotiations during the past three decades to determine what lessons can be applied to future negotiations. Over this period, there were several successful deals between 1983 and 1997 (which, together with strong economic growth, culminated in budget surpluses between 1998 and 2001) and several mostly unsuccessful negotiations since 1998.

The analysis reveals what I call three “primary ingredients,” some combination of which is necessary to achieve a successful budget deal: 1) a *penalty default*, or a painful policy that would be automatically implemented if a deal is not enacted by a certain date; 2) general *public support* for deficit reduction across parties, with some common ground on the necessary reforms; and 3) *healthy negotiations*—presidents and lawmakers of both parties establishing positive working relationships based on trust, good faith, and a focus on compromise—seeking win-win solutions. The existence of at least two of these primary ingredients has always resulted in a successful deficit-reduction deal. Negotiations that took place with only one, or none, of them have almost always failed.

The Case for a Bipartisan “Grand Deal”

The case for deficit reduction is growing even as Congress generally ignores the issue. CBO projects that the budget deficit will rise to 9.5% of GDP over the next 30

years, and that assumes peace, prosperity, low interest rates, and the expiration of most of the 2017 tax cuts.¹

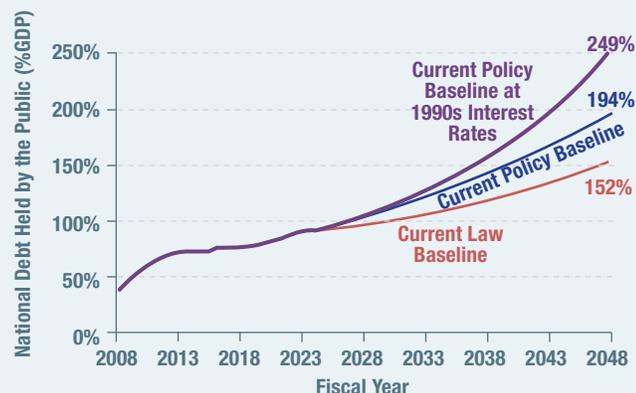
The driver of this red ink is no mystery. According to CBO, between 2018 and 2048 Medicare will run a \$41 trillion cash deficit, Social Security will run an \$18 trillion cash deficit, and the interest payments necessary to finance these Social Security and Medicare deficits will cost \$41 trillion. In short, over and above payroll taxes and premiums, these two programs alone are set to add \$100 trillion to the national debt. Over that 30-year span, the rest of the federal budget is projected to run a \$16 trillion surplus.² However, unlike the temporary, recession-driven budget deficits a decade ago, Social Security- and Medicare-based deficits will expand permanently (see **Figure 3**).

There is another way of showing the long-term fiscal dangers. By 2048, the Social Security and Medicare systems are projected to run an annual budget deficit of 12.6% of GDP (including the resulting interest on the debt). Even a projected 3.1% of GDP surplus across the rest of the budget in 2048 will not close that gap.³

A national debt that grows to 150% of GDP—which CBO projects in the rosy scenario (i.e., continuing low interest rates, no new spending programs, and the 2017 tax cuts expiring on schedule)—would have severe negative consequences. The interest cost would match Social Security as the largest annual federal expenditure, requiring significant tax increases and spending cuts to finance. In reality, such a large debt would surely raise interest rates from their recent and

FIGURE 2.

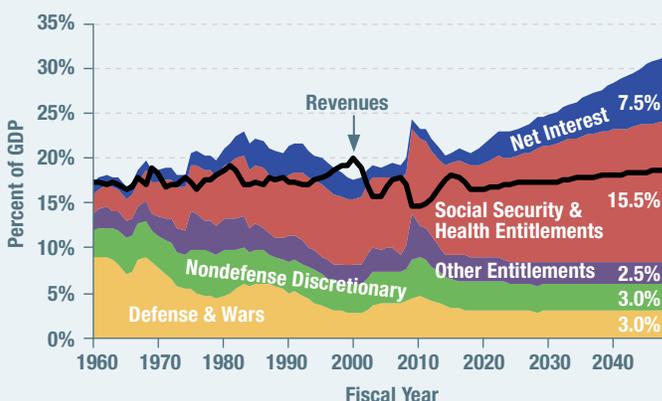
The National Debt Will Rise to 150% of GDP by 2048



Source: Calculations using CBO, “The 2018 Long-Term Budget Outlook.” CBO assumes that the interest rate paid on the national debt gradually grows to 4.4% by 2048. The 249% debt-to-GDP ratio assumes that the average interest rate gradually rises to the 1990s average of 6.9% between 2028 and 2048.

FIGURE 3.

Social Security, Health-Care Entitlements, and Interest Payments



Source: CBO, “The 2018 Long-Term Budget Outlook,” adjusted into a current policy baseline; see Riedl, “Comprehensive Budget Plan,” p. 7. Health-care entitlements include Medicare, Medicaid, ACA subsidies, and CHIP.

current low levels, depriving the economy of growth-creating investment. This is especially true, given this country's low domestic savings rate and the limited ability of other countries to finance such a large U.S. debt.

Primary Ingredients for a Successful Budget Deal

These growing deficits make clear that a new “grand deal” on deficit reduction is absolutely necessary. Yet increased voter polarization, Washington partisanship, and institutional breakdowns have made deficit-reduction deals much more rare over the past 20 years. Is there a plausible path forward toward a deal? This study addresses the question by analyzing 14 major deficit-reduction negotiations since the early 1980s.

An examination of these case studies—which includes both direct research and interviews with participants and experts—reveals several trends that delineate the successes from the failures. Specifically, nearly all successful deficit-reduction deals have included at least two of the following three primary ingredients: 1) a penalty default that lawmakers sought to avoid; 2) public support for the broad elements of a deal; and 3) lawmakers who trust one another and take a good-faith, integrative approach to negotiating. It is possible to secure a deal without two of these ingredients—there is always a human element—but the chances of success substantially increase when they are present.

Primary Ingredient #1: A penalty default. A penalty default occurs if the failure to enact a deal by a certain time will result in the automatic implementation of a policy that the negotiators wish to avoid. In short, the default policy would penalize both parties. In 1983, the White House and Congress moved quickly to enact Social Security reforms because its trust fund was a few months away from insolvency, which would have reduced Social Security checks. The 2013 “fiscal cliff” tax deal was motivated by the upcoming expiration of the “Bush tax cuts,” which would have imposed large across-the-board tax increases that neither party wanted. Past deficit-reduction deals have been tied to legislation raising the debt limit, preventing a government shutdown, or canceling a large spending sequestration. The existence of penalty defaults often results in “must-pass” legislation to avoid the penalty.

Penalty defaults are a key ingredient to overcoming the strategic disagreement that has resulted from increasing partisanship and polarization. While lawmakers

usually have a political incentive to reject compromise, stand with their base constituency, and exploit partisan differences for electoral gains, a penalty default can raise the cost of inaction to an unacceptable level. Neither side wants to risk blame for a government shutdown, debt-limit default, large automatic tax increases or benefit cuts.

While penalty defaults are seen as external factors forcing the hand of lawmakers, nearly all are created by previous laws. Congress and presidents have chosen to have debt limits. The expiration dates of the Bush tax cuts were written into law by previous Congresses (in part to comply with their own Byrd Rule, which prevents reconciliation bills from expanding budget deficits beyond a certain number of years). The inability of certain agencies to spend money in a government shutdown, or Social Security to issue benefits beyond the exhaustion of its trust fund, is based on previously enacted laws. The modern version of sequestration was created by Congress in 1985.

Thus, Congress and the president determine their own penalty defaults. That means that they can also repeal the defaults. Lawmakers in 1983 could simply have required that full Social Security checks continue after trust-fund exhaustion, funded by general revenues. In fact, many penalty defaults have lost their effectiveness. In recent years, Congress has essentially canceled the debt limit for one to two years at a time, and canceled spending sequestrations. While past threats of government shutdowns have been used to motivate deficit-reduction deals, the repeated failure of that approach—with negative political consequences for the party seen as forcing the shutdown—has rendered it ineffective.

Consequently, an effective penalty default must strike a balance. It needs to show a real negative outcome that neither side would want. Yet it also needs at least one side of a divided government that is willing to risk that outcome occurring if a deal is not made. If the penalty is too weak, it will not motivate lawmakers to overcome their strategic disagreement. If the penalty is too strong, the parties are more likely to repeal its enforcement without adding a deficit-reduction deal. The hostage must be valuable, and at least one side of the negotiation must be willing to shoot the hostage if no deal is made.

Primary Ingredient #2: Public support. A second, more obvious, ingredient in a deficit-reduction deal is sufficient public support across both parties. The challenge is that voters typically prioritize deficit reduction in theory yet oppose nearly all tax increases and spending cuts that would significantly accomplish that objective.⁴

Public support for deficit-reduction efforts was notably higher and more bipartisan in the 1980s and 1990s than in the 2000s.⁵ After a brief Tea Party interlude between 2009 and 2012, significantly rising budget deficits are no longer seen by conservatives as an impediment to tax cuts, or by liberals as an impediment to single-payer health care, a government jobs guarantee, free college, student loan forgiveness, or a Green New Deal.⁶ Some economists argue that low interest rates make rising debt affordable,⁷ while adherents to Modern Monetary Theory (MMT) believe that Washington can essentially fund surging deficits with the printing press.

Deficit-reduction deals are less popular today in part because the required solutions are more painful. Deficit deals in the 1980s and 1990s (other than the 1983 Social Security deal) generally focused on significant discretionary spending limits (mostly in defense), smaller mandatory reforms such as some Medicare provider cuts, and occasionally more modest tax increases. Yet discretionary spending is already near historical lows, and rising budget deficits are now driven almost entirely by Social Security and health entitlements—which are much more politically difficult to reform.⁸ Democrats (and many Republicans) draw a line at reducing these benefits, while the alternative of substantial across-the-board tax increases—merely taxing the rich is not enough—is a deal-breaker for Republicans (and many Democrats).

Overcoming public opposition to the pain of deficit reduction requires bipartisan credibility and a tangible, understandable payoff for the public. Bipartisan credibility requires bipartisan negotiation and compromise. President Reagan's initial attempt to offer his own reforms to save Social Security in 1981 encountered strong Democratic opposition, who ran against those reforms in the 1982 elections. Proposals by President Bush to save Social Security in 2005, and by Rep. Paul Ryan (R., Wisconsin) to balance the long-term budget in later years, failed to rally the public partly because Democrats refused to participate. President Clinton's 1993 deficit-reduction act also remained controversial partly because of unanimous Republican opposition. Deficit-reduction deals often impose large costs on taxpayers, and skepticism among taxpayers that they are shouldering a disproportionate burden can be assuaged only by bipartisan assurances that the burden is distributed fairly and equitably. The last two times a party tried to do a major deficit-reduction deal on its own under unified government—in 1993 and 2005—that party lost the congressional majority the following year.

Beyond bipartisan credibility, popular deals also require an understandable, tangible public payoff. Sometimes simply averting a penalty default is the payoff—Social Security checks will continue, or the government will stay open. In 1997, the payoff was the promise of balancing the budget for the first time since the 1960s. In 1990, President George H. W. Bush emphasized that a deficit-reduction deal would finally encourage the Federal Reserve to lower interest rates, which would save money for families and businesses while also creating jobs.

Unfortunately, sometimes the payoff is not immediately obvious. The current budget deficit is too large to achieve a balanced budget. Keeping the deficit small enough to avert a future fiscal calamity may be seen as too theoretical by voters. Other economic factors are maintaining relatively low interest rates even as the national debt rises steeply. Thus, it may be helpful for lawmakers to emphasize other benefits of deficit-reduction reforms. In 2005, President George W. Bush argued that his Social Security reforms would lead to a better system with possibly even higher benefits. Republicans often emphasize that Medicare premium support would encourage choice and competition. Democrats assert that taxing the rich can reduce inequality and that cutting defense may lead to a more modest foreign policy. The 1996 welfare reforms were promoted as a way to end the cycle of poverty, rather than as a budget-saving exercise.

Primary Ingredient #3: Personal Relationships, Trust, and Integrative Negotiations. Hardened partisans regularly dismiss the importance of building bipartisan trust and relationships as “kumbaya nonsense,” yet the history of bipartisan negotiations shows that it is extraordinarily important. Indeed, the collapse of trust and relationships is perhaps the most important factor in the lack of successful bipartisan deals over the past 20 years.

There are two elements to this ingredient. The first is both sides entering the negotiation in good faith by:

- Maintaining civility and honesty and respecting the other side's interests as legitimate;
- Bringing a good-faith willingness to compromise for a deal, while recognizing that nothing is agreed to until everything is agreed to;
- Not dominating the discussions, condescending, relitigating the past, or trying to dictate the other side's interests; and
- Not leaking or publicly undermining the other side's position.

The second element is utilizing an integrative negotiating strategy—whereby both sides work together to build a win-win deal—rather than a pure distributive negotiation (where both sides begin with extreme positions and then try to bargain the other down), or a negotiation based on deceptive or hardball tactics. Elements of integrative negotiations include:

- Beginning by defining the problem together, expressing each side’s desired outcome (which is not necessarily a legislative position), and exploring creative legislative options to achieve those outcomes;
- After all reasonable options have been defined, both sides listing their “must-haves” and “unacceptables,” and even ranking priorities in order to set the stage for concessions and compromises;
- Seeking trade-offs and compromises with the specific goal of each side’s victories; and
- When facing an impasse, expanding the negotiation by bringing in outside issues that can break the deadlock.

A certain degree of hardball tactics and deception is inevitable in all negotiations (and may provide limited benefits to the side employing them), but a heavy reliance on them will often destroy the negotiations.

Political scientists and social psychologists agree that building the necessary trust for good-faith negotiations usually requires repeated interactions—both personal and professional.⁹ Simply getting to know each other leads to increased mutual respect and more honest and trustworthy negotiations. Thus, Presidents Reagan and George H. W. Bush spent considerable time inviting congressional Democrats to the White House for social events as well as calling them to learn their policy concerns (President Clinton reached out to Republicans later in his presidency as well). The importance of repeated interactions also shows the harm of Congress’s more recent evolution of flying into Washington, D.C., on Monday nights and flying out after the final weekly votes on Thursday nights. Finally, this is why seniority (especially on committees) is so important in successful negotiations. It is difficult to act deceptively—or to dismiss the other side’s interests as totally unworthy—when the two sides have gotten to know each other well, both personally and professionally.

Positive budgetary examples include Reagan and House Speaker Tip O’Neill (D., Massachusetts) beginning the 1982–83 Social Security commission with a

pledge not to publicly attack each other or the commission (which commission chairman Alan Greenspan called the lead factor in enacting a deal).¹⁰ While the 1995–96 Clinton–Gingrich budget negotiations broke down almost exclusively over personal distrust, animosity, and deceptive negotiating, by 1997 they had won a major bipartisan balanced budget agreement simply by dropping the political warfare and deciding to sit down and build a win-win deal—what House Speaker Newt Gingrich (R., Georgia) called “the human touch.”¹¹ “We’re in this together” trumps the aim to embarrass the other side into unconditional surrender.

While looking back at the 1990 budget deal, former House Speaker Tom Foley (D., Washington) said, “I did have a very good relationship with President Bush. I felt very comfortable in talking with him about any matter related to the agreement. Honestly, I think that did help and made a difference for everyone.” Former Republican Rep. Bill Frenzel (R., Minnesota) added: “In those days, the bad guys were the opposition, not the enemy. There’s a world of difference between those two words. Yes, we had some distrust, but also we had some ability to work with each other, believe each other, and [that] made life easier at that time.”¹² After negotiating that 1990 budget deal, President Bush and Democratic leaders pledged to bypass all government shutdowns, fight unrelated amendments, and seek majority support in each other’s own party in order to ensure congressional passage.

Some budget negotiations have seen participants make additional concessions for the sake of unity. The 1983 Social Security commission probably had the votes to pass a party-line conservative solution on day one if they had wanted—but they continued negotiation and making concessions to win a bipartisan supermajority vote.¹³ During the 1997 budget deal, Clinton reportedly gave Republicans additional concessions to ensure that the GOP could declare victory as well. Outside the budget, Republican authors of the 2001 USA PATRIOT Act made additional concessions to Democrats—whose votes were not required for passage—to build nearly unanimous support and bipartisan credibility with the public.¹⁴

Former high-ranking Rep. Henry Waxman (D., California), in his book *The Waxman Report: How Congress Really Works*, repeatedly endorses integrative negotiations as the path to most successful deals. Waxman recounts how he negotiated the 1996 Food Quality Protection Act with Rep. Tom Bliley (R., Virginia), chairman of the House Commerce Committee. “We implicitly trusted one another,” according to Waxman. The two lawmakers and their staffs engaged in numerous meetings where they listed their various priorities, sought

win-win solutions, and helped each other satisfy their policy needs. Their legislation passed Congress unanimously and was signed into law. Waxman concludes: “The greatest misconception about making laws is the assumption that most problems have clear solutions, and reaching compromise mainly entails splitting the difference between partisan extremes.”¹⁵

The 1990 Clean Air Act provides another example of a successful integrative solution. “As an observer and a participant in that process,” writes American University political scientist Jeffrey Burnam, “I can testify that there was very little bargaining in the sense of ‘horse trading’ in the Senate back room. The discussions there were based on efforts by key leaders to find mutually acceptable solutions that were right for them in accordance with [the] view that politicians have much to gain by seeking common ground and sharing credit for measures that are in their mutual interest to support.”¹⁶

The increasing utilization of bipartisan congressional “gangs” to negotiate deals is also based on trust and good-faith negotiations. Unlike the usual participants in negotiations—rigid committees, congressional leadership, and White House officials—gangs are self-selecting and private. This makes them more likely to trust one another and safeguard the privacy of negotiations.

Secondary Ingredients for a Deal

While the primary ingredients create substantial momentum for a deficit-reduction deal, secondary ingredients can also push Congress and the White House toward a deal:

An optimal mix of negotiators

Several budget deals over the past several decades have been heavily assisted, or nearly destroyed, by the decision of who is in the room doing the negotiating. All successful bipartisan deals except one—the 1985 Gramm-Rudman-Hollings law—began with private negotiations (or commissions) involving the White House and the congressional leaders of both parties.

Presidential leadership has been vital to all major deals, with the exception of the 1985 Gramm-Rudman-Hollings Act, which began as a popular amendment to a debt-limit bill. However, while White House leadership is extremely important, some dispute whether the

president should be in the room negotiating the final deal. In his book recounting the 1997 budget deal, Clinton’s assistant for legislative affairs, John Hilley, writes that one key to success was limiting the president’s direct involvement in the initial meetings that set broad budget goals. While Clinton remained heavily engaged and in control of the negotiation details, “it was better to have the ultimate decisionmaker above the fray, one step removed from all the bumps and bruises that are part of the day-to-day engagements among strong-willed partisans. When things got rough, or a change of direction was required, it was always good to be able to ‘take it back to the president’—giving everyone time to assimilate, think anew, calm down.”¹⁷

Hilley adds that the earlier 1995 budget negotiations failed partly because Clinton was too directly engaged in the discussions. President Obama also directly led the detailed negotiations with congressional Republicans during the failed 2011 grand-deal negotiations (although he was able to negotiate the smaller Budget Control Act). Additionally, Reagan and George H. W. Bush had top aides negotiate the final details of the 1983 Social Security deal and 1990 Andrews Air Force Base deal. The president should surely direct the administration’s bargaining position, but he need not necessarily sit at the bargaining table.

A perennial challenge has been the trade-off between building a large group of negotiators that ensures that all interests are represented, versus having a smaller group that is more likely to build a consensus. In the 1983 Social Security reforms, a 15-member commission made progress, yet the final deal required breaking off into an informal “Gang of Nine” that began meeting at the home of James Baker, White House chief of staff. In the 1990 budget deal, Bush originally hosted a group of approximately two dozen at Andrews Air Force Base for 11 days to negotiate in private. Progress was made, yet the deal was sealed when a smaller group of eight top White House and congressional leaders met in the office of House Speaker Foley for several days after the Andrews negotiations broke up. The 1997 budget deal was negotiated by a small group of administration and congressional leaders who were open to compromise.

These examples suggest that a smaller group of six to nine negotiators is optimal. The problem is that limiting the number of congressional leaders at the table increases the pressure on those leaders to adequately represent the diverse factions of their conference. However, successful leaders must inspire loyal followers. A major reason the 2011 Obama-Boehner negotiations continued breaking down was that House Speaker John Boehner (R., Ohio) was not seen as someone who could bring the “Tea Party”

Republican faction with him on a deal. House Majority Leader Eric Cantor's (R., Virginia) presence was often considered a reflection of Tea Party opinion, yet Boehner was driving the Republican negotiations, and the two reportedly did not get along with each other.

Ultimately, a successful budget negotiation should consist of two negotiating factions, rather than several partisan sub-factions. This requires a minimum degree of party consensus before entering negotiations. The president and congressional leaders must also be able to deliver their rank-and-file lawmakers.

Two successful models have emerged. The 1983 and 1990 model begins with a larger group of negotiators (15–22) that includes the key administration aides, congressional leadership, relevant committee chairpersons, and top staff. Once the larger group has moved toward a general framework, they shrink the room to six to nine top congressional and administration leaders to finish the deal. Still, this approach is not perfect—by isolating the 22 members at Andrews Air Force Base, rank-and-file Republicans still felt left out, and ultimately voted against the deal.

The other model, from 1997, is to begin with a relatively small group of negotiators who also maintain contact with relevant factions and committee leaders—even cycling them into the negotiations when their issues of jurisdiction were addressed.

The choice of administration negotiators matters as well. In the chaotic 2011 negotiations, both Republican and Democratic members of Congress complained that Obama and his top negotiators were rarely on the same page, leading to repeatedly contradictory negotiating positions.

A united front to overcome outside interests and communicate to the public

Even a bipartisan agreement on an optimal set of policy reforms does not guarantee that the public or influential interest groups will support the deal. The president and congressional leaders may have the wind at their back when announcing a bipartisan agreement, but they still need to sell it to the rest of Congress and the voters. An obvious tactic is to emphasize the bipartisan nature of the deal. In the 1997 budget agreement, President Clinton made sure to include Republican leaders at the Rose Garden ceremony announcing the deal. The 1998 Social Security pact between Clinton and House Speaker Gingrich would have been rolled out in a series

of coordinated speeches, commissions, and events (had it not collapsed because of the Lewinsky scandal). In 1983 and 1990, the White House and congressional leaders coordinated communications and pledged to work together knocking down political obstacles.

Addressing skeptical interest groups is trickier. The 1983 Social Security reforms reportedly enraged AARP—yet the parties simply chose to ignore the organization, whose own preference for a general revenue bailout was seen by negotiators as a wild overreach. AARP was more successful fighting President Bush's 2005 Social Security reforms because Democrats joined their opposition from the start. Past deals that capped defense spending, reduced payments to health providers, and raised user fees had too much bipartisan momentum for the affected interests to block.

One approach is to bring the most important outside stakeholders into the process. Including them as part of a bipartisan commission to solve the problem alongside lawmakers can give these stakeholders a voice and an investment in seeing the problem solved. At minimum, keeping in close consultation during the policy process can build support from outside organizations that are acting in good faith.

An agreement on the scope of the problem, the data, and a reliance on neutral experts

One common aspect of failed negotiations is that neither side may agree on the exact nature of the problem to be solved, and both sides may bring their own contradictory experts and data. The most famous example is the 1995–96 Clinton–Gingrich budget negotiations that resulted in a 21-day government shutdown over whether to rely on Congressional Budget Office (CBO) or Office of Management and Budget (OMB) scoring of the budget proposals. During the 2011 Obama–Boehner negotiations, both sides also brought wildly divergent analyses of the budgetary savings and effects of various proposals.

Creating a bipartisan commission has been shown to address these issues. The 1983 Social Security commission was professionally staffed with technical experts who drafted a long series of memos explaining the scope of the problem and the savings and ramifications of various proposals. The 1998 Breaux–Thomas commission, 2010 Simpson–Bowles commission, and 2011 “Super Committee” also included highly trained, technical staff that helped both sides frame the problem, create reform options, and analyze their pros and cons.

There is considerable nonpartisan technical expertise at CBO, OMB, Government Accountability Office (GAO), and across federal agencies. It is just a matter of negotiators agreeing on a group of experts, bringing them in, and accepting their expertise.

A bipartisan commission

A bipartisan deficit-reduction commission can serve several purposes. First, it can break the partisan logjam and focus both parties on finding a solution. For example, after a year of partisan warfare over the soon-to-be insolvent Social Security system, Reagan in late 1981 created a bipartisan Social Security commission that brought Republicans, Democrats, and outside experts together to define the policy challenge, focus on solutions, and craft reform options. Although the deal was finalized outside the official commission negotiations, the creation of a commission made those civil, bipartisan negotiations possible.

Second, a commission can bring bipartisan credibility to a deficit-reduction plan and thus encourage public support. The 1983 Social Security commission's recommendations were much more widely accepted than previous Social Security reform proposals. The 2010 Simpson-Bowles commission gave some credibility to deficit-reduction efforts, even if the commission itself did not approve the final plan. In the 1980s and 1990s, a defense-base-closing commission was able to build support in Congress for closing more than 100 obsolete military bases—a solution that never could have occurred through regular congressional politics. A commission does not guarantee success, but it can break some of the partisan gridlock and get the ball rolling on reform. Furthermore, several “failed” commissions, such as the 1998 Breaux-Thomas commission and the 2010 Simpson-Bowles commission, had several of their key proposals enacted over the next five years.

Brookings Institution's Stuart Butler and Timothy Higashi have noted that successful commissions require several factors.¹⁸ First, they must be created by a White House and Congress that is truly dedicated to solving the problem at hand. A commission is a tool, yet it cannot motivate a disinterested Congress.

Second, a commission usually requires current members of Congress who have a direct stake in the politics. Lawmakers will not give credibility to a group of (only) outside experts who have no political skin in the game.

Third, commissions should reserve additional spots for respected former lawmakers and outside experts, as well as interest-group stakeholders whose support may ultimately be necessary for a deal. While membership should include a diversity of opinion, it helps to include individuals who are capable of working across the aisle.

Fourth, requiring a commission supermajority to approve the plan is wise because fiscal consolidation recommendations are unlikely to be approved by a partisan and polarized Congress unless they have successfully brought several diverse factions on board.

Finally, there should be some automatic mechanism to bring the approved commission recommendations to the House and Senate floor for a guaranteed vote, so that the report does not simply collect dust on a shelf.

Commissions have historically been more successful when used for discrete issues, such as Social Security solvency or closing military bases. Broader budget agreements usually require more direct congressional and White House involvement. Stuart Butler and Maya MacGuineas have proposed having a commission initiate the deficit-reduction planning and craft default proposals to meet the long-term budget targets, while also empowering Congress and the White House to replace those reforms with alternatives that can achieve equal savings.¹⁹

Divided government

It may be counterintuitive to observe that deficit-reduction deals are more likely to occur under divided government than unified control. As difficult as forging bipartisan agreement can be, unified party control of the White House, House, and Senate is even less likely to result in deficit-reduction legislation. One reason is lack of interest. When one party has finally achieved the long-dreamed-of trifecta of the White House combined with a House and Senate majority, fiscal consolidations are often not on the priority list (1993 Democrats are an exception). Republicans typically seek to cut taxes and enact other popular parts of the conservative agenda. Democrats typically aim to create and expand government programs and enact other popular parts of the Democratic agenda. Also, during the last two periods of unified government, the party in power focused on alleviating a national crisis (the terrorist attacks for the 2001–06 Republican trifecta²⁰ and the great recession for the 2009–10 Democratic trifecta).

Unified government also fails to produce major bipartisan deals because the minority party sees little political benefit in helping the majority enact controversial policies. In that situation, the majority party may find it too risky to impose consolidations without the support of the minority party—and the minority party will see its aggressive opposition to these painful reforms as its key back into power. Thus, congressional Republicans unanimously opposed the 1993 Democratic tax increases, and congressional Democrats aggressively opposed Bush’s 2005 Social Security reforms. The minority party’s aggressive opposition rendered the reforms politically toxic; indeed, both parties lost their congressional majorities the following year. At this point, any major deficit-reduction deal is much more likely to be enacted under divided government.

Case Studies

The following 14 case studies constitute the largest grand-deal deficit negotiations since 1983. Six of them resulted in enacted legislation (summarized in **Figure 4** and **Figure 5**), and eight did not. The vast majority of these case studies show that a large bipartisan deal requires at least two of the three primary ingredients described earlier.

1983 National Commission on Social Security Reform (“Greenspan Commission”)²¹

The Social Security system was heading toward insolvency, and by summer 1983 it would be unable to pay full benefits. Ronald Reagan came into office in 1981 proposing his own solvency reforms (mostly benefit savings) ran into bipartisan opposition and were harshly attacked as a war on seniors. Reagan responded with a new approach: the creation of a 15-member bipartisan commission in September 1981, which was chaired by Alan Greenspan and included lawmakers and outside experts appointed by both parties. The commission would report after the 1982 elections.

The commission’s main contributions were depoliticizing Social Security reform, collectively defining the problem in terms of solvency goals to be met without fundamentally altering the program’s structure—with a unanimous vote—and building reform options. However, after the commission deadlocked on solutions, an agreement was reached by a smaller “Gang of Nine” congressional leaders and administration leaders who met at the home of James Baker, the White House chief of staff. Their solution—which funded a short-term fix and approximately two-thirds of the 75-year long-term shortfall—was endorsed by the broader commission on a 12–3 vote.

FIGURE 4.

Deficit-Reduction Deals, 1983–2011: Estimated Savings (\$Billions)

Year Enacted	1983	1985	1990	1993	1997	2011
Duration of Savings Estimates	7 years	6 years	5 years	5 years	10 years	9 years
Revenues	111	–	158	241	-220	–
Increased Marginal Tax Rates	40	–	51	160	0	–
Other Tax Changes	71	–	107	81	-220	–
Spending	39	501	277	145	894	1,651
Defense Discretionary	–	240	197	34	247	825
Nondefense Discretionary	–	223	0	34	273	678
Medicare Providers	–	8	33	48	297	86
Medicare Beneficiaries	–	–	10	8	88	0
Other Mandatory Programs	39	30	37	21	-11	62
Interest Savings	15	50	60	47	142	298
Total Savings	165	551	495	433	816	1,949
Total Savings (% GDP)	0.51%	1.72%	1.45%	1.08%	0.72%	1.01%

Note: Positive figures reflect deficit-reducers, negative figures added to the deficit. The 1983 Social Security deal also transferred \$18 billion of general revenues into the system, yet that transfer between federal accounts did not affect the overall budget deficit.
Source: CBO, Social Security Administration, and author calculations

FIGURE 5.

Primary Ingredients for Successful and Failed Grant Deals

Case Study	Primary Ingredient			Total Ingredients	Result
	Penalty Default	Public Support	Healthy Negotiations		
1983 National Commission on Social Security Reform (“Greenspan Commission”)	Yes	No	Yes	2	Enacted
1985 Balanced Budget and Emergency Deficit Control Act (“Gramm-Rudman-Hollings”)	No	Yes	Yes	2	Enacted
1990 Omnibus Budget Reconciliation Act (“Andrews Air Force Base Summit”)	Yes	Yes	Yes	3	Enacted
1993 Omnibus Budget Reconciliation Act (“Deficit Reduction Act of 1993”)	No	No	No	0	Enacted*
1994 Bipartisan Commission on Entitlement and Tax Reform (“Kerrey-Danforth”)	No	No	No	0	Failed
1995–96 Government Shutdown	Yes	No	No	1	Failed
1997 Balanced Budget Act and Taxpayer Relief Acts (“1997 Budget Deal”)	No	Yes	Yes	2	Enacted
1998 Clinton–Gingrich Social Security Meetings	No	Yes	No	1	Failed
1999 National Bipartisan Commission on the Future of Medicare (“Breaux-Thomas”)	No	No	No	0	Failed
2005 Social Security Reform	No	No	No	0	Failed*
2010 National Commission on Fiscal Responsibility and Reform (“Simpson-Bowles”)	No	No	No	0	Failed
2011 Obama–Boehner Grand Deal	Yes	No	No	1	Failed
2011 Budget Control Act	Yes	Yes	No	2	Enacted
2011 Joint Select Committee on Deficit Reduction (“Super Committee”)	Yes	No	No	1	Failed

*The White House and both houses of Congress under the control of one party
Source: Author’s calculations

Congress then tweaked and even expanded the reforms (adding a future increase in the full retirement age from 65 to 67), before it passed with bipartisan support and was signed by the president in April 1983.

The final deal resulted in budget savings (estimated at the time of enactment) of \$165 billion over seven years, consisting of \$88 billion in taxes, \$23 billion in revenues from bringing in new populations such as non-

profit and new federal employees, \$39 billion in benefit savings from delaying an annual COLA by six months, and an estimated \$15 billion in lower interest costs. An additional \$18 billion transfer of general revenue into Social Security improved program solvency but did not alter the unified federal budget. Future benefit savings would come from raising the full retirement age to 67. In terms of the primary ingredients:

Penalty Default? Yes. Unless reforms were enacted, the Social Security system would stop paying full benefits in summer 1983.

Public Support? No. While the public understood that Social Security was facing a crunch that would render it unable to pay full benefits, most Americans still opposed the necessary reforms to save the system—even if the opposition was softer in 1983 than in previous years.²² It is also worth noting that AARP opposed virtually all plausible reforms, a position that led to both parties dismissing their opposition.

Healthy Negotiations? Yes. At the time the commission was formed, Reagan and House Speaker Tip O’Neill privately pledged not to publicly oppose the commission’s recommendation—which Greenspan later declared the most important reason that the reforms were enacted.²³ Republicans put taxes on the table, and Democrats agreed to spending cuts. The “Gang of Nine” got along well, trusted one another, and tried to make both sides a winner. Leaks were minimized. Congress accepted most recommendations and even worked on a bipartisan basis to expand the savings. Bob Dole (R., Kansas) implored Senate colleagues not to oppose savings provisions unless they had better alternatives. Ultimately, the 1983 Social Security reforms showed how both parties can collaborate on a controversial issue in a manner that hurts neither party politically.

Result: With a penalty default and healthy negotiations, the result was the most ambitious entitlement reforms in more than three decades.

1985 Balanced Budget and Emergency Deficit Control Act (“Gramm-Rudman-Hollings”)²⁴

Amid public concern over rising deficits, the Democratic House and Republican Senate both wanted a deficit-reduction deal. Reagan had pledged to veto any tax increases, and Democrats (seeking defense cuts) took Social Security reform off the table. After the negotiations within the regular budget process broke down, a bipartisan group of senators offered an amendment to a bill in September to increase the debt limit that would create annual (and declining) caps on the budget deficit, to be enforced by across-the-board spending cuts (aka sequestration).

To the surprise of most, the Senate passed the proposal 75–24. From there, congressional leaders of both

parties—seeing the proposal’s momentum—set aside their concerns and worked together to make the caps acceptable to the rest of Congress. Democrats were able to exempt most mandatory spending from any sequestration and require that defense cuts would constitute half of any sequestration. Republicans kept tax increases out of the automatic reforms and received assurance that sequestrations would not occur until after the 1986 elections. While neither side loved the compromise, it passed the House and Senate overwhelmingly and was signed by the president on December 12, 1985 (the legislation as signed would be struck down by the Supreme Court).

In the final deal, yearly deficit-reduction targets spared both tax increases and major entitlement cuts. While the previous CBO baseline projected a budget deficit rising from \$212 billion in 1986 to approximately \$300 billion by 1991, this law required that the deficit fall incrementally from \$172 billion in 1986 to zero by 1991. If Congress failed to stay within the targets, automatic across-the-board cuts (sequestrations) would take place—half from defense and the other half from non-defense discretionary spending (plus a small portion of non-exempt entitlement spending).

Penalty Default? No.

Public Support? Yes. Polls and lawmaker town halls showed that the public was increasingly concerned about rising deficits, which resulted in immediate legislative momentum for the proposal.²⁵ Democrats were especially interested in reining in the defense budget, and Republicans wanted to protect earlier tax cuts from falling prey to rising red ink.

Healthy Negotiations? Yes. The proposal originated with a bipartisan amendment to a bill. Congressional leaders who were skeptical decided that it would be more effective to shape the legislation—and remove what Democrats and Republicans separately regarded as its worst provisions—than to stand on the sidelines and vote no. Both sides were able to exempt key priorities from the final provisions governing sequesters.

Result: Public support and good-faith negotiations led to success. This was a rare bipartisan budget deal that began as regular legislation—rather than a commission or set of top-level negotiations—and gained momentum. In 1986, the Supreme Court declared the law unconstitutional (*Bowsher v. Synar*, 478 U.S. 714, 1986) on separation-of-powers grounds: the law transferred executive functions to the U.S. comptroller general (who is director of the General Accountability Office, an agency within the

legislative branch). A tweaked (and constitutional) version of the law, 1987 Balanced Budget and Emergency Deficit Control Reaffirmation Act, was enacted in 1987.

1990 Omnibus Budget Reconciliation Act (“Andrews Air Force Base Summit”)²⁶

In 1990, the mounting budget deficit again had the attention of both parties. An automatic sequestration was looming, the economy was weakening, and the Federal Reserve would not lower interest rates without a deficit-reduction deal.

Democrats had been drafting their own deficit-reduction plans when President George H. W. Bush announced on June 26, 1990, that he would be willing to break his “no new taxes” campaign promise as part of a bipartisan budget deal. From September 7 through September 18, Bush, his aides, and a bipartisan group of approximately a dozen congressional leaders negotiated at Andrews Air Force Base. Although progress was made, the final deal was not sealed until a smaller “Gang of Eight”—White House and congressional leaders—began meeting in House Speaker Tom Foley’s office in late September.

Despite pledging to work together to pass their budget deal through Congress, a Republican rebellion in the House defeated the plan. From there, negotiators moved the proposal leftward to win more Democratic support. It passed Congress in late October, and the president signed the bill on November 5, 1990.

The final deal projected deficit reductions of \$495 billion over five years, consisting of \$158 billion in new taxes, \$197 billion in defense cuts, \$80 billion in mandatory program savings (of which \$33 billion was to be cut from reimbursement to Medicare providers), and \$60 billion in interest savings. The act also replaced the Gramm-Rudman-Hollings sequester with five years of discretionary spending caps and new, pay-as-you-go (PAYGO) rules, requiring that new tax cuts or entitlement expansions be offset.²⁷

Penalty Default? Yes. A spending sequestration was looming. Bush had threatened to veto a continuing resolution and shut down the government if no deal was struck by October 1. The president also wanted to persuade the Federal Reserve to lower interest rates on a fragile economy.

Public Support? Yes. The public was generally

worried about the rising deficit. Both parties feared a public backlash if they failed to complete a deal.

Healthy Negotiations? Yes. Bush had long invested significant effort into building personal relationships with Democratic leaders. In addition, his OMB director, Richard Darman, had a particularly strong relationship with Democrats. The Andrews Air Force Base negotiations were generally collegial and suffered minimal leaks. After leaving Andrews, a smaller “Gang of Eight” finished the deal. Negotiators of both parties worked together to sell the deal to Congress and fight poison-pill amendments. However, rank-and-file Republicans felt excluded by the private negotiations at Andrews and generally opposed the deal.

Result: With all three primary ingredients secured, the bargain was sealed. Ironically, the income-tax rate increases were not in the original deal struck at Andrews and at Foley’s office. A rebellion of House Republicans against the bill ultimately led to more taxes, which was not their intention.²⁸ Major defense savings were made possible by the collapse of communism.

1993 Omnibus Budget Reconciliation Act (“Deficit Reduction Act of 1993”)²⁹

After running for president on the promise of a middle-class tax cut, Bill Clinton quickly determined that rising deficits required both tax increases and spending cuts. With Democrats controlling the House and Senate, Republicans quickly made clear that they would oppose the president’s plan. This left the president needing the overwhelming support of congressional Democrats. Clinton’s congressional relations were rocky (with both parties), and Congress defeated a \$16 billion stimulus plan that was attached to the deficit-reduction proposal. However, the rest of the deficit-reduction package was passed by a razor-thin margin of 218–216 in the House, 51–50 in the Senate (with Vice President Al Gore breaking the tie), and then signed into law on August 10, 1993.

Clinton was concerned about rising deficits, particularly the effect on interest rates and economic sluggishness. He also wanted to preempt more aggressive Republican deficit reforms.³⁰ As the debate heated up, the White House became more motivated to simply avoid an embarrassing legislative defeat. On the flip side, Republicans, fully out of power, opposed the tax increases but were also motivated to deny the president a major

victory. Thus, moderate congressional Democrats—many of whom favored aggressive deficit reduction, including entitlement cuts—had the most leverage because their overwhelming support was required for passage.

At the time it was enacted, the new budget law was estimated to trim the budget deficit by \$433 billion over five years. This included \$241 billion in new tax increases, led by raising the highest income-tax rate from 31% to 39.6% (\$115 billion), raising transportation fuel taxes by 4.3 cents per gallon (\$31 billion), removing the earnings cap on Medicare payroll taxes (\$29 billion), and raising the percentage of Social Security benefits (from 50% to 85%) subject to income taxes for upper-income seniors (\$25 billion). It also saved \$145 billion in federal spending by various measures, including extending the discretionary spending caps through 1998 (\$69 billion), Medicare provider cuts (\$48 billion), tweaking benefits for military and federal retirees (\$12 billion), raising Medicare premiums (\$8 billion), Medicaid reforms (\$7 billion), and new spectrum auctions by the Federal Communications Commission (\$7 billion). The bill included a \$19 billion expansion of the Earned Income Tax Credit (EITC). Finally, the law saved an estimated \$47 billion in lower interest costs on the national debt.³¹

Penalty Default? No.

Public Support? No. While the public supported the proposal by a 58%–27% margin when it was unveiled in February 1993, support continued to fall closer to an even split, with Republicans especially hostile.³² Clinton’s approval rating also continued to fall throughout the summer of 1993 as the budget debate heated up.³³ Voters did not consider the bill a top priority, and even many Democratic lawmakers determined that opposing the bill was good politics.³⁴

Healthy Negotiations? No. Most congressional Republicans initially made clear they would not support the plan.³⁵ Republicans who did reach out were dismissed by a White House that also demanded that congressional Democrats not work with (or even speak with) any Republicans regarding the bill.³⁶ Rather than involve congressional Democrats in drafting the proposal, the White House handed a complete plan to Congress with demands not to amend it.³⁷ A bipartisan Senate alternative proposal was dismissed.³⁸ The president and other White House officials—needing nearly unanimous Democratic votes for unpopular tax increases—relied heavily on bullying, intimidating, pleading, lying, and making legislative promises to fellow Democrats that were later broken after the votes were secured.³⁹

Clinton repeatedly complained that he did not understand the rhythms and motivation of Congress.⁴⁰ The final deciding vote for the package came from Sen. Bob Kerrey (D., Nebraska), who endured verbal abuse from Clinton before reluctantly voting for the legislation to keep the new presidency from sinking (and in return for a promise to create a new commission to address entitlement spending growth).⁴¹

Result: This was the only deal in this study to have been enacted without two of the three primary ingredients for a successful negotiation. That was a luxury of single-party control of the House, Senate, and Congress that eliminated the requirement for bipartisan negotiations. Still, passing the unpopular reforms on a party-line vote played a role in the Democrats losing control of Congress the following year.

1994 Bipartisan Commission on Entitlement and Tax Reform (“Kerrey-Danforth”)⁴²

A few months after the Deficit Reduction Act was enacted, the president fulfilled a promise to Kerrey and created the Bipartisan Commission on Entitlement and Tax Reform by executive order.⁴³ Cochaired by Kerrey and Republican senator John Danforth, the commission included 10 senators, 10 House members, 8 private-sector leaders, a governor, and a mayor, as well as 27 professional staffers. Of the 32 members, 30 voted for an interim report defining the budget challenge, and 24 voted for a set of broad principles supporting immediate action to limit long-term deficits. However, the commission deadlocked and was unable to issue a final report with any consensus recommendations. The commission staff created a computer game whereby the public could try to balance the budget.

As no recommendations reached the necessary three-fifths threshold for approval by the commission, Kerrey and Danforth instead issued a joint proposal, as did a few other members introduce proposals. Most of these proposals did not include detailed scoring.

The commission was created as a favor to Kerrey and had the strong support of Danforth. Neither the White House nor House or Senate leaders were significantly invested in the commission’s success—in fact, some opposed the commission’s purpose.

Penalty Default? No.

Public Support? No. Despite public outreach and

hearings televised on C-SPAN, the commission received little broad media coverage or public engagement. And while most Americans generally supported deficit reduction, there was little demand for major entitlement cuts or tax increases. AFL-CIO, NAACP, and AARP publicly attacked draft plans to pare back entitlement spending.

Healthy Negotiations? No. The failure even to issue a report of consensus policy recommendations (despite a modest three-fifths threshold for approval) suggests that the members lacked either the motivation or capability to compromise. When Kerrey and Danforth issued a joint proposal that would reform Social Security and Medicare, commission member Rich Trumka (president of United Mine Workers) publicly shrieked that it was “the most fundamental attack on Social Security and Medicare since their beginning.”

Incoming House Speaker Newt Gingrich warned commission Republicans that any proposal to reform Social Security—a program whose future shortfalls the commission was created in part to address—would be unacceptable. In short, Congress and even commission members were openly hostile to the reforms that the commission was created to examine.

Result: The lesson of this experience is that successful commissions require, at the very least, a Congress and president committed to solving the underlying problem. Absent this commitment, commission members will not make the required investment or compromises. The lack of any requirement that Congress vote on a commission-approved proposal made the exercise relatively academic. Finally, the commission’s coverage of all tax and entitlement programs was too broad to make agreement realistic.

1995–96 Government Shutdown⁴⁴

Emboldened by what it considered a voter mandate, the new Republican congressional majority passed a reconciliation bill in November 1995 that would balance the budget in seven years by cutting spending by \$974 billion and taxes by \$222 billion (for a net \$752 billion in deficit reduction). Clinton opposed these reforms and vetoed bills to raise the debt limit that included many of the Republican provisions. The result was a government shutdown.

After finally pledging to negotiate a seven-year balanced budget, the president signed legislation reopening the government after five days. However, Republicans later determined that the president’s pledge was insincere,

and this led to a second shutdown on December 16 that lasted 21 days. During that time, Clinton pushed a more modest budget blueprint and Republican leaders committed public gaffes (such as Senator Dole making comments that were construed as preferring that Medicare “wither on the vine”), culminating in the public moving toward the president’s position. In early January 1996, the Republicans surrendered and passed clean legislation, reopening the government. The budget talks ended soon after, without a balanced budget deal.

Figure 6 shows that H.R. 2491, the original budget reconciliation bill passed by the Republican Congress and vetoed by the president, would have saved \$752 billion over seven years. Clinton offered a counterproposal that would have saved \$417 billion.⁴⁵ Republicans used the debt limit and a government shutdown to push Clinton into supporting their budget. A public backlash against these GOP tactics, plus the public’s preference for the president’s budget proposals, allowed him to eventually block the Republican approach.

Penalty Default? Yes. Republicans had used the threat of a government shutdown and hitting the debt limit as leverage against President Clinton. He vetoed the budget reform legislation anyway, but the shutdown did not lead to a deal.

FIGURE 6.

Competing Offers: Congressional Republicans and Clinton, December 1995 (1996–2002 Savings in \$Billions)

	Republican Congress	President Clinton
Nondefense Discretionary	\$409	\$259
Medicare	\$226	\$97
Medicaid	\$133	\$38
Welfare Programs	\$87	\$38
Other Mandatory Programs	\$39	\$8
Tax Cuts	-\$222	-\$70
Interest Savings	\$80	\$47
Total Savings	\$752	\$417

Note: The Republican offer is HR 2491, which was vetoed by Clinton. Clinton’s offer was presented on Dec. 15, 1995. Source: CBO data (prepared by Senate Budget Committee majority staff), printed in the Congressional Record (Senate), Jan. 5, 1996, pp. 311–12

Public Support? No. The public wanted a deficit-reduction deal. However, Republican and Democratic voters were harshly split on how to balance the budget, and most voters opposed using the debt limit and government shutdown as leverage for a budget deal. Ultimately, the public sided against the more aggressive Republicans.

Healthy Negotiations? Emphatically no. Democrats ran millions of dollars in television issue-ads against the Republicans during the negotiations.⁴⁶ Republican lawmakers asserted that they did not want to be in the same room with Clinton.⁴⁷ Republicans portrayed the president as a dishonest negotiator, and the president portrayed Republicans as hostage-takers.

Clinton and House Speaker Gingrich attacked each other in the press daily. Clinton and Senate Majority Leader Dole were already gearing up for the 1996 presidential election and in little mood for compromise. House Republican freshmen did not trust the party leadership negotiating on their behalf. Similarly, deficit-reduction plans by moderate congressional Democrats were dismissed by their own party leaders.

Result: The penalty default, a government shutdown, was not enough to bring about a deal. There was a deal to be made—the disagreement was over the magnitude of the spending cuts—yet animosity between the sides resulted in failure.

1997 Balanced Budget and Taxpayer Relief Acts (“1997 Budget Deal”)⁴⁸

Following the contentious 1996 election, President Clinton and the Republican congressional leadership decided to give balancing the budget another try. With Dole no longer in the Senate and House Speaker Newt Gingrich weakened, the Clinton White House sought a fresh start by reaching out to the Republican chairmen of the House and Senate Budget Committees.

Thanks to strong economic growth, the rapidly closing budget deficit meant that both parties could achieve the long-sought goal of a balanced budget without as much political sacrifice as earlier deals required. Starting essentially with the policy frameworks from the 1995–96 failed negotiations, new CBO budget estimates continually reduced the amount of required savings for a balanced budget. The president and congressional Republican leaders announced a package of spending and

tax cuts on May 2, 1997, worked out the details over the summer, and enacted the final reforms in August.

This grand bargain yielded net estimated savings of \$816 billion over 10 years. The spending savings of \$1,036 billion consisted of discretionary spending caps (\$520 billion); Medicare reimbursement cuts to health providers (\$297 billion); Medicare savings from beneficiaries, such as premium increases (\$88 billion); and \$142 billion in resulting net interest savings—and an \$11 billion cost of other provisions. Revenues were cut by \$220 billion. The deal provided for a \$500 per-child tax credit and a new entitlement, the Children’s Health Insurance Program (CHIP).⁴⁹

Both sides wanted credit for a balanced budget. Republicans wanted to show that they could govern after the bruising government shutdowns of 1995–96, while Democratic leaders wanted to combat their image as tax-and-spend liberals. Liberal Democratic Rep. Charles B. Rangel (D., New York) triumphantly declared at the White House ceremony that “we have now shattered the myth that we Democrats are spending Democrats and taxing Democrats.”⁵⁰

Penalty Default? No.

Public Support? Yes. The public wanted a balanced budget. Republicans had campaigned on a balanced budget. Clinton and congressional Democrats wanted to build their deficit-hawk credibility with the public.

Healthy Negotiations? Yes. In a complete reversal from the 1995–96 negotiations, both sides worked well together, trusted each other, and negotiated in good faith. Negotiators focused on ranking each side’s preferences, delineating must-haves and unacceptables, and seeking win-win solutions.

Neither side sought to embarrass the other. Clinton even decided to give the Republicans a “win” on tax cuts (even though the public shared Clinton’s skepticism) as a good-faith gesture to keep Republicans on board. Both sides also reduced the number of negotiators and excluded those who were seen as overly partisan or difficult. Gingrich credited the “human touch” for making the deal possible.

There were tense moments. Late one evening, Rep. John Kasich (R., Ohio) called Clinton aide John Hilley at home and asked for his address because, he said, “if we don’t get a deal by the beginning of the recess, I’m [expletive] coming over and

burning your house down!” Yet Kasich later raved that “Hilley was the whole key to this because whenever things got crazy I’d talk to Hilley.”⁵¹

Result: With public support and healthy negotiations, a deal was to be had. The law included significant tax cuts and spending hikes up front, paid for by vague automatic cuts in the future. After surging economic growth revenues surprisingly balanced the budget by 1998, many of those future automatic cuts were canceled. This was the last successful budget negotiation that showed significant trust and good faith on both sides.

1998 Clinton–Gingrich Social Security Meetings⁵²

After completing the 1997 bipartisan budget agreement—and seeing the budget balance one year later—Clinton and Gingrich held secret meetings to craft a deal that would bring personal investment accounts and consider other structural reforms to Social Security, such as slowing the growth of benefits. Clinton wanted to protect the new budget surplus from tax cuts. Gingrich wanted to introduce market reforms into Social Security. The group began small and included Erskine Bowles, White House chief of staff, and Bill Archer, chairman of the House Ways and Means Committee.

The group mapped out a full process of speeches, events, and legislation to be rolled out beginning with the January 27, 1998, State of the Union address. Six days before the speech, news of the president’s relationship with Monica Lewinsky broke. Republicans went to war against the White House; Democrats geared up to defend their leader; and the Social Security reform was an instant casualty.

Penalty Default? No. Social Security benefits faced no immediate threats.

Public Support? Yes. Social Security personal accounts were popular with Republicans, and Clinton’s pollster found that 73% of Democratic voters wanted some form of personal account system as well.

Healthy Negotiations? Not by the end. Clinton and Gingrich began negotiating in secret and seemingly in good faith. There were no leaks, and a full bipartisan rollout was choreographed. That short era of good feelings evaporated.

Result: The meetings began with the primary trust ingredient, but that evaporated. Granted, the

plan still may have faced challenges in Congress. However, the Lewinsky scandal showed the importance of outside political constraints on Washington deal-making.

1999 National Bipartisan Commission on the Future of Medicare (“Breaux-Thomas”)⁵³

As part of the 1997 budget agreement, the White House and Republican Congress created a commission to reduce Medicare’s long-term liabilities. The 17 commission members included lawmakers and outside experts of both parties. It was cochaired by Sen. John Breaux (D., Louisiana) and Rep. Bill Thomas (R., California).

Negotiations began well, leading to proposals that favored raising the Medicare eligibility age from 65 to 67, merging Parts A and B, introducing a premium support option,⁵⁴ and adding a Medicare drug benefit. However, as the Lewinsky scandal gained momentum, Clinton aimed to shore up his liberal base. Hours before the commission’s final vote, the president gave a press conference publicly opposing the deal. Top commission advisors of both parties agree that the president’s late opposition drove several commission Democrats to oppose the final deal, leaving them just shy of the 11 of the 17 required votes for approval.

Penalty Default? No.

Public Support? No. The federal surplus made the public less interested in seeking budget savings. Furthermore, the backlash against managed-care approaches (such as HMOs) to health care undermined support for the direction the commission was headed.

Healthy Negotiations? Ultimately, no. The commission did generally get along, worked together, and built trust. But the Lewinsky scandal eventually pushed most commission Democrats against compromise.

Result: These negotiations had none of the three primary ingredients typically necessary for success. Breaux and Thomas continued to support the proposal. A version of the commission’s Medicare drug benefit was enacted in 2003 (which added costs to the Medicare system, in conflict with the commission’s overall goal).

2005 Social Security Reform⁵⁵

George W. Bush ran on Social Security reform in the presidential election of 2000, and again in 2004. In 2001, he created a bipartisan Social Security reform commission (with no current members of Congress) that congressional Democratic leaders reportedly refused to meet with.⁵⁶ In early 2005, Bush proposed adding personal accounts to Social Security and later endorsed “progressive indexing” of benefits (slowing the growth of benefits for upper-income seniors). Other details were open to negotiation.

Congressional Democrats and liberal organizations—many of whom had previously supported addressing Social Security’s fiscal challenges—instead repudiated their past openness and refused to engage in the process.⁵⁷ Bush was relentlessly attacked as anti-senior citizen. Many Democrats (save for a few moderates in Congress) denied that Social Security faced any solvency issues and misrepresented the proposals as eliminating all benefit guarantees and radically cutting benefits. This scared off the congressional Republican majority, who had concluded that Social Security reform was too controversial to do without bipartisan support. The reforms faded away, never reaching a vote in Congress.

Penalty Default? No. The projected insolvency of the Social Security trust fund was a few decades away.

Public Support? No. Polling showed support for fixing Social Security and some sympathy for personal accounts.⁵⁸ Yet the public was not invested in the issue, and Democratic attacks successfully made reform toxic.

Healthy Negotiations? No. Partisan tensions were high after the 2004 presidential campaign. Democrats and AARP harshly attacked the president’s proposals. When asked when the Democrats would propose their own plan to avert Social Security’s eventual insolvency, House Democratic leader Nancy Pelosi (D., California) responded: “*Never*. Is *never* good enough for you?”

Result: With none of the three primary ingredients for a successful grand bargain, Bush’s desire to reform Social Security had no traction. This episode also raises another political problem for budget deals: unified government. When the White House and both branches of Congress are in the hands of one party, the prospect for grand bargains does not increase—more likely, it makes such deals less likely. The minority party, hoping to regain some power,

has no motivation to help the majority secure a victory, and refuses to provide the needed bipartisan cover to get a deal done. The 1993 legislation was barely enacted under these circumstances, but the 2005 efforts failed.

2010 National Commission on Fiscal Responsibility and Reform (“Simpson-Bowles”)⁵⁹

With budget deficits exceeding \$1 trillion, congressional Republicans supported the creation of a bipartisan deficit commission—and then voted it down when President Obama endorsed it.⁶⁰ In response, Obama created his own deficit commission, cochaired by Democrat Erskine Bowles and former Republican senator Alan Simpson. The 18 commission members consisted of 12 Republican and Democratic congressional leaders, two chairpersons, and four nongovernmental experts.

After nine months of mostly ineffective negotiations, Bowles and Simpson drafted a chairman’s mark. Between 2012 and 2020, their proposal would have saved \$4.124 trillion from sources including tax reform and gas-tax revenues (\$996 billion), discretionary spending caps (\$1.661 trillion), health-care mandatory savings (\$341 billion), other mandatory savings (\$215 billion), Social Security revenue and benefit changes (\$238 billion), and resulting interest savings (\$673 billion). The underlying baseline also assumed extension of the “2001 Bush tax cuts,” a cancellation of upcoming Medicare provider cuts that were required by the sustainable growth rate (SGR) law (which was created in the 1997 deal), and a gradual reduction in Overseas Contingency Operation (OCO) spending in Iraq and Afghanistan. The long-term target was to balance the budget with taxes and spending at 21% of GDP by 2035.⁶¹

The chairman’s mark failed to get the support of 14 of the commission’s 18 members. The strongest opposition came from the House Republicans and Democrats. Republicans asserted that the plan did not sufficiently reform Medicare and Medicaid, raised taxes too high, and would push workers into Affordable Care Act health exchanges (by paring back the tax exclusion for employer-provided health premiums).⁶² Obama also opposed the blueprint for eliminating too many tax deductions and cutting defense spending too deeply.⁶³ Congress broadly criticized the deal as well, and outside groups attacked any reforms that affected them.

Penalty Default? No.

Public Support? No. In 2010, conservative voters were focused on rising deficits. Yet Republicans did not want to raise taxes, and Democratic voters were wary of most major spending cuts. Both parties’ leaders considered it politically safe to oppose the final commission recommendations.

Healthy Negotiations? No. Republican and Democrat factions often refused to negotiate directly, communicating through cochairmen Bowles and Simpson. Senators Kent Conrad (D., North Dakota), Judd Gregg (R., New Hampshire), and Tom Coburn (R., Oklahoma) pushed for a deal, although most commission members did not want to be the first to move off their talking points or offer concessions. The prospect of a chairman’s mark—drafted by Bowles and Simpson—finally gave members a document to modify and shape, rather than just argue talking points. The length of the commission—nine months—marginally helped developed trust.

Result: With none of the three primary ingredients necessary for a deal present, negotiations led nowhere. However, many of the commission’s proposed savings within discretionary spending caps and small entitlement savings reforms were later enacted as part of the 2011 Budget Control Act and the 2013 and 2015 “Ryan-Murray” deals that altered the Budget Control Act.⁶⁴

2011 Obama–Boehner Grand Deal⁶⁵

With Simpson–Bowles in the rearview mirror, the debt limit needed to be raised, and a Tea Party Congress demanded deficit reduction. The president wanted to avoid hitting the debt limit and risking a federal default on its obligations. Republicans wanted to cut the deficit, yet also feared blame if the negotiations failed.

White House and congressional leaders began a lengthy series of negotiations. The 25-person “Biden Group”—led by the vice president and Republican House Majority Leader Eric Cantor—began talking in May 2011. Despite progress on small deficit-reduction reforms, this group disbanded when it was discovered that Obama and House Speaker John Boehner were engaging in their own negotiations. **Figure 7** shows a sample of the leading offers from Obama and Boehner. Taxes as well as the size and pace of major entitlement reforms divided the two sides. The Obama–Boehner group—which expanded to include other congressional and administration leaders—eventually failed to reach a grand deal. It foundered on the fundamental division

between Republicans and Democrats over taxes and entitlements. The group would move on to a discretionary spending deal that is taken up below.

Penalty Default? Yes. Republicans threatened to vote against raising the debt limit without a deal.

Public Support? No. A Gallup poll showed that a plurality of voters preferred not raising the debt ceiling at all.⁶⁶ The public also lacked consensus on reform options: a September 2011 Bloomberg poll showed that 38% of adults wanted spending cuts only, 31% wanted tax increases only, and 17% preferred both.⁶⁷ Surveys showed a record 64% of voters considered reducing the budget deficit as a top priority,⁶⁸ yet strong majorities also expressed an unwillingness to pay more in taxes or accept significant spending cuts.⁶⁹

FIGURE 7.

Sample of Competing Offers Between Obama and Boehner, July 2011 (2012–21 Savings in \$Billions)

	President Obama	Speaker Boehner
Spending Cuts	1,605	2,150
Discretionary Spending Caps	1,100	1,200
Raise Medicare Age to 67*	15	100
Other Medicare Savings	100	150
Other Mandatory Health Savings	170	200
Non-Health Mandatory Savings	220	250
Social Security Eligibility Age & COLAs	–	250
Tax Increases	1,310	800
Tax Reform Revenues	510	800
End “Bush Tax Cuts” for Wealthy	800	–
Total Savings	2,915	2,950

Note: While many offers were exchanged, these were selected as typical offers made during the negotiations.

Source: Bob Woodward, *The Price of Politics* (New York: Simon & Schuster, 2013), pp. 155–57, 237–38, as well as internal (unreleased) negotiation documents obtained while the author worked in the Senate.

*The president would phase in this policy over 30 years. Republicans would impose it much sooner.

Interest savings would add to the total savings.

Healthy Negotiations? No (see **sidebar, The Obama–Boehner Negotiations: An Autopsy**). Neither the Republican nor Democratic leaders had the full trust of their rank-and-file lawmakers; within the negotiations, neither party trusted the other, both parties leaked to the media, and both parties attacked the other publicly. The negotiations themselves were unstructured, containing too many “red lines” and too few policy concessions.

Result: With only one of the three primary ingredients, the deal never happened.

2011 Budget Control Act⁷⁰

As the Obama–Boehner prospects for a grand deal collapsed, many of the participants began a new round of negotiations to complete what became the Budget Control Act. This law was eventually scored as cutting approximately \$1.9 trillion over the decade

The Budget Control Act called for savings of \$917 billion over 2012–21, consisting of caps on discretionary spending (\$756 billion), other reforms (\$5 billion), and resulting interest savings on the debt (\$156 billion). The law also set up the Joint Select Committee on Deficit Reduction (“Super Committee”) to find an additional \$1.2 trillion in savings or face an additional sequestration of discretionary and nonexempt mandatory spending.⁷¹ When scored against the updated CBO budget baseline in early 2012, the combined savings dipped from \$2.1 trillion to \$1.9 trillion because of updated budget and economic assumptions.

Penalty Default? Yes. Republicans threatened to vote against raising the debt limit without a deal.

Public Support? Yes (softly). With the federal government on the verge of hitting the debt limit, caps on discretionary spending and the creation of a Super Committee were considered an acceptable set of reforms. A Gallup survey showed liberals and moderates supporting the agreement and conservative opposition that was likely based more on wanting additional savings (rather than opposing the spending cuts in this agreement).⁷²

Healthy Negotiations? No. Participants claim that the negotiations became even more contentious, negative, and distrustful when they moved to negotiating the Budget Control Act. As the debt-limit deadline approached, Democrats became increasingly wary that Republicans might allow default. Even as the negotiation narrowed to bipartisan discretionary spending caps, small negotiating

differences brought increasingly harsh threats and “red lines.”

Result: The negotiations that led to the law had a penalty default and some degree of public support. The pressure of the debt limit required a deal, and scaled-down reforms were less controversial with most voters.

2011 Joint Select Committee on Deficit Reduction (“Super Committee”)⁷³

While the Budget Control Act automatically cut \$900 billion-plus over nine years, the 12-member bipartisan, bicameral congressional Super Committee was supposed to find alternative reforms to prevent an additional \$1.2 trillion in across-the-board cuts (enforced, if necessary, by sequestration). During three months of negotiations—which began with a month of bipartisan staff briefings on savings options—talks remained at the general level, arguing over the ratio of spending and revenue savings categories, as well as whether to raise revenues through traditional tax increases, economic growth revenues from tax reform, or user fees. These disorganized, circular conversations never came close to a deal. Even at the end, a Republican offer to reduce the sequester through bipartisan, less controversial, reforms to smaller mandatory programs was rejected by burned-out Democrats (these smaller mandatory proposals would return in the bipartisan 2013 and 2015 deals to replace discretionary spending cuts).

Figure 8 shows a sample of competing offers within the Super Committee (including a bipartisan proposal presented at a hearing from Erskine Bowles and Alan Simpson). The failure to enact alternative reforms triggered an additional \$1,032 billion in 2012–21 savings (\$1.2 trillion scored against an earlier baseline), consisting of lower defense spending caps (\$454 billion), nondefense discretionary spending caps (\$303 billion), automatic cuts to Medicare providers (\$86 billion) and other nonexempt mandatory programs (\$48 billion), and the resulting savings in interest on the debt (\$142 billion).⁷⁴

Penalty Default? Yes. Super Committee failure would result in a \$1.2 trillion sequestration.

Public Support? No. After the collapse of the Obama–Boehner grand deal and the August debt-limit showdown, the public did not pay much attention to the Super Committee, and there was

FIGURE 8.

Sample of Super Committee Competing Offers, Fall 2011 (2012–21 Savings in \$Billions)

	Dems I	GOP I	Dems II	GOP II	Bowles-Simpson
Spending Savings	1,000	1,660	1,236	776	1,400
Discretionary Spending Caps	400	250	400	240	300
Medicare (Providers)	250	100	200	75	250
Medicare (Beneficiaries)	100	400	200	150	250
Medicaid and Other Health	50	285	75	50	100
Other Mandatory Programs	200	400	200	100	300
Chained Consumer Price Index*		225	161	161	200
Revenue Increases**	1000	200	950	500	800
Net Interest Savings	300	340	400	225	400
Gross Deficit Reduction	2,300	2,200	2,586	1,501	2,600
SGR Freeze (2 years)***			-19		
President's Jobs Plan			-477		
Total Deficit Reduction	2,300	2,200	2,090	1,501	2,600

Source: *Washington Post* and internal documents from committee deliberations
 *This reform would use a lower—and more accurate—inflation adjustment for federal benefits.
 **Revenue increases include those from additional economic growth resulting from tax reform.
 ***This policy would prevent scheduled cuts in Medicare reimbursements that were required under the law.

no sign that an entitlements-for-taxes deal had achieved a public consensus.⁷⁵

Healthy Negotiations? No. Two of the Democrats—Reps. Xavier Beccera (California) and Jim Clyburn (South Carolina)—barely participated in the deliberations. Members lacked guidance from their party’s leadership and spent weeks making partisan, generic counteroffers without much progress. Any remaining trust was shattered by an October 2011 *New York Times* exposé containing anonymous quotes of staffers (and possibly lawmakers) harshly criticizing various committee lawmakers.⁷⁶

Result: The negotiations had only one of the three primary ingredients for a deal (a penalty default) and failed to avert the sequester. Later deals replaced some of the scheduled discretionary spending cuts with mandatory savings, until the caps were essentially repealed by the Bipartisan Budget Act of 2018.⁷⁷

Budget Resolutions, Individual Lawmakers, and Think Tanks

Lawmakers have not been shy in offering their own ambitious budget proposals. Perhaps the most famous are the blueprints proposed by former House Speaker Paul Ryan (R., Wisconsin) in his earlier congressional years—which rose from basic proposals to eventually become the basis for House Republican budget resolutions. Budget blueprints have also been released by the House and Senate Budget Committees, individual lawmakers, and groups like the House Progressive Caucus, House Blue Dog Coalition, and House Republican Study Committee.

Yet blueprints by themselves have not led to serious bipartisan budget negotiations. Even when budget resolutions are enacted, blueprints have been largely ignored except for the discretionary spending figures and occasional reconciliation instructions (which essentially allow a future tax or entitlement reform bill to pass without a Senate filibuster). The reality is that

individual and party blueprints are viewed as too partisan to set the stage for bipartisan negotiations. The only large budget deal that began with legislation—the 1985 Gramm-Rudman-Hollings law—was simply a spending-cap amendment, not a detailed set of tax and spending proposals. On the contrary, most successful budget negotiations begin with two parties—or a commission—sitting down and building their own opening offers from scratch, rather than starting with a partisan legislative proposal.

Still, budget resolutions and lawmaker proposals do serve a purpose. Their main role is to give birth to new policy proposals and, in some cases, unite a political party around an agenda. Republican proposals like Medicare premium support had once been obscure ideas championed by just a few lawmakers, until Ryan began making it a centerpiece of his budget resolutions.

Over time, Republicans voting for their budget resolution went on the record as supporting Medicare premium support, and learned to defend the policy, making it a staple of the Republican health-care reform agenda. While Democrats have not used budget resolutions to this degree, proposals such as single-payer health care, student loan forgiveness, and allowing Medicare Part D to negotiate drug prices all began with partisan Democratic bills that were adopted more broadly by the party.

Think-tank proposals have not been particularly effective. Strongly liberal or conservative proposals have occasionally made their way into legislation and worked up through the ranks of one of the political parties. Yet think tanks have not significantly influenced deficit-reduction grand deals—most prominent think tanks have opposed bipartisan grand deals for their lack of partisan purity. Even prominent bipartisan think-tank budget proposals—such as the Bipartisan Policy Center’s 2010 Deficit Reduction Task Force, headed by retired Senate Budget Committee chairman Pete Domenici (R., New Mexico) and former OMB and CBO director Alice Rivlin⁷⁸—have given prominence to certain proposals but have not motivated Congress and the White House to work out a deal. Think tanks have been more effective in explaining and defending certain budgetary approaches than in crafting legislation that makes it to the finish line.

The Components of Typical Deficit-Reduction Deals

More than half of all savings in major deficit-reduction deals since the early 1980s have come from discretionary spending cuts (relative to the baseline of inflation-based growth rates). These cuts typically come in the form of tight statutory discretionary spending caps that last from five to nine years and are enforced by sequestrations (**Figure 9**).

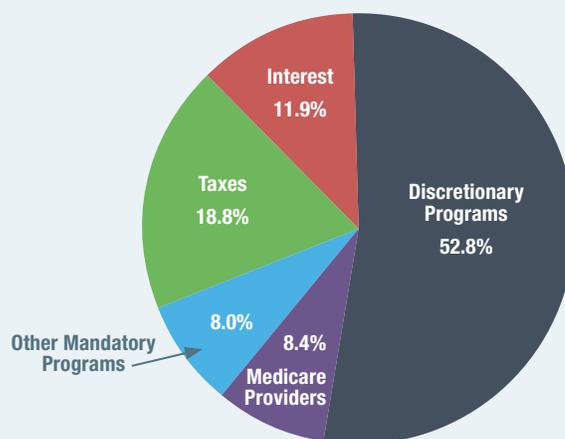
The result? Past deals have reduced discretionary spending from 10% of GDP in 1983, to 6% of GDP in 2019—on its way to a projected 5% of GDP within a decade.⁹³ This would represent a post-1930s low and leave little room for additional discretionary spending relief in future deals. In any case, past discretionary caps have been repealed or replaced within a few years of enactment.

Mandatory spending cuts have provided 16% of the budget savings in past deals, and a slight majority of those cuts have come from reduced reimbursements to Medicare providers. These reforms have proved to be popular ways to pare back health spending without directly burdening beneficiaries. However, many of the

(Cont'd on page 29)

FIGURE 9.

Components of Major Deficit-Reduction Deals Since 1983



Source: Calculated by author using data from CBO and the Social Security Administration. For comparison purposes, each deal’s savings over the scoring period were converted to a percentage of GDP. The sums are rounded in this pie chart.



The Obama–Boehner Negotiations: An Autopsy

The 2011 Obama–Boehner grand-deal negotiations represent the most intense, high-level budget negotiations—and the most spectacular failure—of the past 20 years. As future bipartisan negotiations will likely include similar offices (the White House and congressional leadership) and have to navigate the same policy fissures and the trade-off between entitlement cuts and tax increases, it is worth looking at the mistakes made in order to avoid repeating them.

Competing negotiating groups undermining each other

The “Biden Group,” 25 negotiators led by the vice president and the House majority leader (Eric Cantor), disbanded when they learned that President Obama and House Speaker Boehner had formed a separate negotiation. Obama and Boehner were close to a deal that fell apart when they learned of a bipartisan “Gang of Six” in the Senate that was closing in on their own deal. Whenever a new group formed, the earlier group would disband out of a belief that at least one side must be getting a better deal from the new group. For example, Obama abandoned a potential agreement with \$800 billion in higher taxes as soon as he heard a rumor that the Gang of Six had agreed to \$1.2 trillion in revenue.⁷⁹

Republican disorder

Boehner and Cantor had a personal rivalry and strong disagreements over whether to agree to tax increases (Boehner was more tax-friendly). Rank-and-file House Republicans did not trust their leaders at all and strongly opposed any deal raising taxes. In the Senate, John Kyl focused on moving a deal to the right, while Majority Leader Mitch McConnell was skeptical of the negotiations. Some rank-and-file senators formed a Gang of Six, which rendered it impossible for Republicans to negotiate with one voice, or for Democrats to trust that Republicans could follow through on a promised deal.

Democratic disorder

The White House rotated at least six negotiators besides the president, often with wildly varying approaches and opinions. Vice President Biden, Chief of Staff Bill Daley, and Treasury Secretary Tim

Geithner were significantly more willing to compromise than OMB director Jack Lew, National Economic Council director Gene Sperling, and Legislative Affairs director Rob Nabors. At one point, a Republican offer was greeted with an enthusiastic yes from Geithner, while Nabors responded that the offer was practically insulting.⁸⁰ House and Senate Democrats were highly skeptical of the negotiations, felt excluded, and repeatedly asserted that the president should not assume congressional Democratic support for a deal.

Partisan bitterness

Both sides entered the negotiating still bruised by the stimulus, Affordable Care Act, and other battles. Republicans remembered former Obama chief of staff Rahm Emanuel's previous attitude of "we have the votes, (expletive) 'em,"⁸¹ and Democrats remembered McConnell telling a reporter that his goal was to make Obama a one-term president. In the previous two and a half years, Obama had mostly bypassed the personal outreach to Congress that had been the hallmark of the Reagan, H. W. Bush, and (at times) Clinton presidencies. Consequently, Obama lacked strong personal relationships and trust with lawmakers of either party.⁸²

While negotiations were often cordial, participants reported an underlying partisan tension. Obama reportedly resented that Republicans were using the debt limit—and the threat of the U.S. defaulting on its debt—to extract budgetary concessions. Republican negotiators, meanwhile, found Obama (and several of his advisors) to be condescending and professorial, as he and Jack Lew lectured Republicans on policy basics and even conservative political strategy. As stated earlier, having the president directly sit at the negotiating table (rather than top aides) has not been conducive to achieving successful bipartisan agreements.

Republicans repeatedly expressed concern that a successful budget deal could help Obama politically—and even acknowledged that the president's endorsement of the Simpson-Bowles commission's recommendations would have created a Republican backlash. Congressional Democrats, meanwhile, complained that joining the entitlement reform crusade would make it more difficult to demagogue Republicans as heartless budget-cutters.⁸³

On April 13, 2011, hours after privately meeting with Republican leaders to call for compromise and toned-down rhetoric, Obama invited Ryan to sit in the front row for a budget speech that was promoted as stressing conciliatory outreach. Instead, stunned Republicans watched Obama savage Ryan and

misrepresent his budget proposals (inventing nonexistent provisions and exaggerating the real provisions) in a campaign-style speech. Even prominent Democrats and White House officials were disgusted by the ambush, and the president later called it a "mistake."⁸⁴ However, Obama—who was usually conciliatory during the actual negotiations—followed other negotiating sessions with angry press conferences attacking Republicans.⁸⁵ Boehner also gave occasional press conferences blasting and misrepresenting the president's negotiating positions.⁸⁶

Leaks

When negotiators feared that their side was giving away too much—or wanted to embarrass the other side for making a controversial offer—they often leaked the offer to the media, or to their rank-and-file lawmakers. Republicans leaked to the *Wall Street Journal*, while Democrats leaked to the *New York Times* and Politico.⁸⁷ The leaks achieved their objective of creating a public and congressional backlash, at the cost of both parties eventually limiting their communications.

Republicans repeatedly pulled out of talks

In response to the leaks and lack of trust, Republicans twice pulled out of the negotiations. Cantor and Republicans pulled out of the Biden Group negotiations as a preemptive move after hearing (false) rumors that the vice president was planning to leave.⁸⁸ When Biden clarified that he was not planning to leave, Cantor responded that he had already told reporters that he was leaving and therefore could not change his mind. Later, Boehner abandoned the White House negotiations (and announced it to the media) as a strategic bluff to extract more concessions.⁸⁹ Finally, after Obama seemingly reneged on an agreement by demanding an extra \$400 billion in taxes, Republicans temporarily left the talks, again.⁹⁰ In many cases, Republicans anticipated an Obama press conference and raced to the podium to preemptively abandon the negotiations and offer their side of the story.

The White House lacked a strong policy process

As discussed above, the White House policy process was disorganized. Obama repeatedly wavered on various issues, and the White House lacked a centralized process for making decisions. Instead, those decisions often fell to presidential advisors who vigorously disagreed with one another. Even Rep. Chris Van Hollen (D., Maryland), one of the lead Democratic negotiators, reportedly concluded that the White

House had no negotiating strategy or core principles.⁹¹ Senate Majority Leader Harry Reid’s chief of staff bluntly told Obama that he was “baffled” by the president’s lack of basic negotiating skills and strategy.⁹²

Negotiations were unstructured

A rational process would first examine broad, shared goals, and delineate “must-haves” versus “unacceptable,” and then seek a range of mutually acceptable policies. The Biden Group made significant progress using this model. The Obama–Boehner negotiations went in circles. The president would assert that he needed a \$2 trillion debt-limit increase that would last through the 2012 election. Republicans would respond that such a deal requires \$2 trillion in budgetary savings. Both sides would agree on some basic savings in discretionary spending and smaller entitlement programs. Republicans would point out that large entitlement reforms are necessary to get to \$2 trillion. Obama would respond that major entitlement changes require tax increases—and that even most structural Social Security and health reforms were still off the table. Republicans would refuse to raise taxes without more aggressive structural entitlement reforms (and were skeptical of tax rate increases even with structural reforms). Deadlocking on a big deal, they would reexamine the smaller deal of discretionary and small entitlement reforms, and then repeat the same conversation. This discussion went in circles for countless hours.

Both sides had too many “red lines”

Some red lines are inevitable in any negotiation. Yet Obama had said that he would block any deal unless it extended the debt limit through the 2012 elections, delayed all spending cuts until after the 2012 elections, matched any significant health-care reforms with tax increases, excluded nearly all structural entitlement reforms (such as Medicaid per-capita caps or block grants, Medicare premium support, changes to the Affordable Care Act, or broad Social Security reforms), employed separate spending caps for defense and nondefense discretionary spending, enforced future tax reform promises with a tax trigger, and guaranteed that any tax changes increased the progressivity of the tax code.

Republicans employed several red lines as well. This included requiring that 10-year budgetary savings be as large as the debt-limit increase, rejecting tax rate increases and rejecting separate spending caps within discretionary spending. The Republicans in Congress also seemed to take all tax revenues off the table.

With all these demands from both sides, it proved nearly impossible to thread the needle of reform.

Neither side made sufficient concessions

At the time of the negotiations, the U.S. was facing a current policy baseline deficit of \$9.2 trillion over the next decade. Both sides quickly agreed to save \$1.1 trillion from discretionary spending caps and \$250 billion from smaller mandatory programs. But there was virtually no movement on tax revenues and major entitlement programs—where the savings are more likely to grow over time.

Obama agreed to consider raising the Medicare eligibility age to 67 over a 30-year period (saving just \$15 billion in the first decade), merging Medicare Parts A and B after a decade (saving zero in the first decade), using the chained CPI to calculate annual budgetary inflation adjustments, and saving perhaps \$300 billion in smaller health reforms, such as provider cuts. Collectively, these entitlement reforms would not have reduced much of the \$9.2 trillion first-decade baseline deficit, or (with the exception of chained CPI) significantly altered long-term deficit trends. The agreement to consider these proposals caused consternation in the White House and reportedly terrified congressional Democrats. On the Republican side, Boehner offered \$800 billion in higher taxes in return for major entitlement reforms. The Republican Congress expressed their opposition to that figure and probably would not have accepted any additional tax revenue. The two sides never came close to an entitlements-for-taxes deal that could likely pass Congress.

The president backtracked on a tentative deal

At one point, a deal seemed to be in place that included \$800 billion in new taxes. However, after Obama learned that the Senate “Gang of Six” might be closing a deal with \$1.2 trillion in taxes, the president called Boehner and reportedly upped the ante to \$1.2 trillion in taxes in return for the agreed-upon level of entitlement reforms. While the president later insisted that the additional revenues were only a suggestion (why was this done through a spur-of-the-moment phone call?), Republicans interpreted it as the president backtracking on an agreement and pulled out of further grand-deal negotiations.

large Medicare provider savings enacted in 1997 were later repealed or replaced because they imperiled the ability of medical providers to supply their services at realistic prices. Given the size of these past cuts (plus \$700 billion in additional cuts as part of the 2010 Affordable Care Act), Medicare provider cuts are unlikely to be more than a small piece of any major deficit-reduction deal in the future.

New taxes have contributed 19% of the savings in major deficit-reduction laws. The 1985 and 2011 deals contained no new taxes, and the 1997 Balanced Budget Act contained a net tax cut. Significant tax increases were included in the 1990 and 1993 agreements, and taxes have also been raised outside traditional grand deals in 1982 and 2013. In many bipartisan negotiations, Republicans refuse to raise taxes, while Democrats refuse to enact large structural entitlement reforms—leaving discretionary spending cuts and smaller entitlement tweaks to dominate most deals.

These trends highlight the unique nature of the 1983 Social Security reforms, which both raised tax rates and pared back the most politically sensitive entitlement program. They also explain much of the failure to enact large entitlement reforms (and occasionally large tax increases) as part of the 1995–96 shutdown negotiations, Breaux-Thomas commission, Simpson-Bowles commission, Obama–Boehner grand-deal negotiation, and congressional Super Committee. Negotiators continue to rely on discretionary spending savings and smaller entitlement savings instead.

Another common component of budget deals is the tendency to provide new spending or tax cuts up front while scheduling the spending cuts for later—and sometimes eventually repealing the scheduled cuts. The 1983 Social Security reforms contained a few small targeted expansions. The 1990 and 1993 budget deals expanded EITC. The 1997 budget deal contained significant tax relief, created CHIP, and expanded other health benefits. Even the 2011 Budget Control Act expanded Pell Grants. The fiscal consolidations of the 1985 deal⁹⁴ (and the sequestration-enforced portion of the 2011-enacted spending caps) were scheduled to begin after the next elections. Multiyear discretionary spending caps (along with Medicare provider cuts) have also been repealed within a few years.

The party that is more motivated for a deal—often the party that needs a deal—usually finds itself having to compromise more because it is negotiating from a position of relative weakness. In the 1983 Social Security reforms, 1985 Gramm-Rudman-Hollings law, and 1997 balanced budget agreement, both parties came with equal motivation and leverage, and came away

generally satisfied. In the 1990 budget deal, Bush was somewhat more motivated than Democrats because he felt ultimately responsible for an economy weighed down by rising debt and interest rates—and he ended up signing a deal heavily tilted toward Democratic priorities such as tax increases, defense cuts, and Medicare provider cuts.

In the 1995–96 government shutdown, both parties fought hard because they believed that they had a mandate and the public on their side. Eventually, the polls lined up behind Clinton, giving him the upper hand and leading to a Republican surrender.

The 2011 Obama–Boehner negotiations were the most interesting case study in leverage. Obama believed that he had very little leverage because the Republican Congress had communicated that they might be crazy enough to shoot the hostage (refuse to raise the debt limit without a deal, risking default). The president considered himself responsible for averting the economic chaos of default and for getting a deal, even if the deal was tilted to the right.

Republican leaders, meanwhile, believed that they had leverage until a default occurred, at which point they would be blamed by the public for the resulting economic chaos.⁹⁵ The rest of Congress, meanwhile, seemed mostly unconcerned about default and wanted only a deal that they could win (and congressional Democrats believed that they had the leverage with the upcoming tax cuts expiring and the Republicans desperate for an extension). The final compromise consisted of roughly equal spending cuts between (Republican-prized) defense and (Democrat-prized) non-defense spending. However, the increased Republican willingness to allow such large defense cuts fed a subsequent impression that the GOP got the better end of the deal.

Budget Deals (aka Fiscal Consolidation) Abroad

A 2012 report by the Organisation for Economic Co-operation and Development (OECD) reviewed the economic literature and added its own analysis of 50 years of fiscal consolidations by member nations.⁹⁶ The differences between OECD country experience and the U.S. are revealing.

OECD found that major fiscal consolidations are more likely to be enacted under the following conditions: a country's budget deficit is increasing rapidly (regardless of

the initial debt level); the economy is growing; interest rates are rising (which makes government interest payments more expensive); new government leaders have taken office—especially more centrist leaders; and similar countries are also prioritizing deficit-reduction (a peer-pressure effect).

Additionally, the enacted fiscal consolidations that most successfully reduced budget deficits have typically included broad fiscal rules. They included, for example, balanced budget requirements, deficit caps, or spending caps; priority given to spending cuts over tax increases; modest tax revenues that avoid large income- or payroll-tax increases; and a gradual implementation (unless the debt was rising drastically).

American deficit-reduction deals have generally followed this path of broad fiscal rules (discretionary spending caps), a reliance on spending restraint, modest revenues, and gradual implementation. The main difference is that American fiscal consolidations—with average savings of roughly 1% of GDP—have been substantially smaller than the typical savings enacted in other developed countries over the past few decades, which have often exceeded 5% of GDP.⁹⁷

U.S. deficit-reduction deals have been less ambitious for three reasons: they were addressing budget deficits (averaging 4% of GDP) that were often smaller than those of other nations; America's comparatively lower spending levels leave fewer relatively generous benefits to pare back; and political gridlock has repeatedly taken tax increases and most entitlement spending off the table, leaving fewer options to reduce deficits.

Budget Deals Will Get Harder to Achieve

Achieving a grand bargain to stabilize U.S. government finances today is significantly more difficult than in the past, and for reasons beyond the obvious increased partisanship and polarization afflicting American politics and society. First and foremost, the budget challenge has become more daunting. Budget deficits—currently 4% of GDP—are headed to 5% of GDP within a decade (7% under a current policy baseline) and more than 12% of GDP over the next few decades.⁹⁸ While past deficits have occasionally exceeded the current level, they have never had long-term projections this dire.

Surprisingly, the steeply rising deficit is not leading to a public backlash, as it had in earlier eras.⁹⁹ Some suggest that deficit reduction is not a voter priority

because the economy is doing well, anyway. Yet there may be a deeper cause.

Between 2007 and 2009, the deficit soared from \$161 billion to \$1.4 trillion, creating a Tea Party movement that led to a new Republican House and concerns that American finances were headed toward those of Greece, if not Weimar Germany. However, that deficit—which was mostly a temporary result of the recession—fell back to \$438 billion by 2015 as the economy recovered, the stimulus and Troubled Asset Relief Program (TARP) laws expired, and modest spending and tax consolidations were enacted.

This made the anti-deficit activists look like the boy who cried wolf—bringing to mind President Reagan's quip, "I am not worried about the deficit. It is big enough to take care of itself." Conservative columnist Ross Douthat spoke for many when he wrote in the *New York Times* that, while he still supports structural spending reforms, he now believes that his earlier deficit-reduction insistence was unnecessarily apocalyptic.¹⁰⁰ The problem, of course, is that the current deficits are driven primarily by Social Security and Medicare spending—the result of demographics and rising health-care costs—that will not solve itself in a way that a recession would.

Additionally, the common solutions provide less savings. Discretionary spending is falling toward its lowest share of the economy since the 1970s (**Figure 10**). Moreover, the global economy, tax competition, and the ability to shift income to low-tax countries have limited the efficacy of tax rates above a certain level. And entitlement spending—the lead driver of long-term deficits—has become more difficult to reform as 74 million baby boomers begin collecting Social Security and Medicare benefits.¹⁰¹ Medicare provider payments have already been cut significantly. In short, much of the low-hanging fruit has already been picked.

Finally, several common penalty defaults have lost their effectiveness. The debt limit had been tied to every major deficit deal between 1985 and 2011. Yet Republicans—who had often required a deficit-reduction deal in return for their vote to raise the debt limit—have largely abandoned that threat, and there is a question as to whether future threats would even be credible. Similarly, attempts to tie deficit-reduction deals to the continuing resolutions that prevent government shut-downs have failed so often that they no longer motivate a deficit deal. Even sequestrations have been repealed by Congress often enough that they no longer guarantee that deficit reduction will be carried out. Lawmakers need to come up with new, credible, and realistic

penalty defaults that nudge them into fiscally responsible directions without being so unreasonable that they are instead repealed.

Moving Forward: How to Negotiate

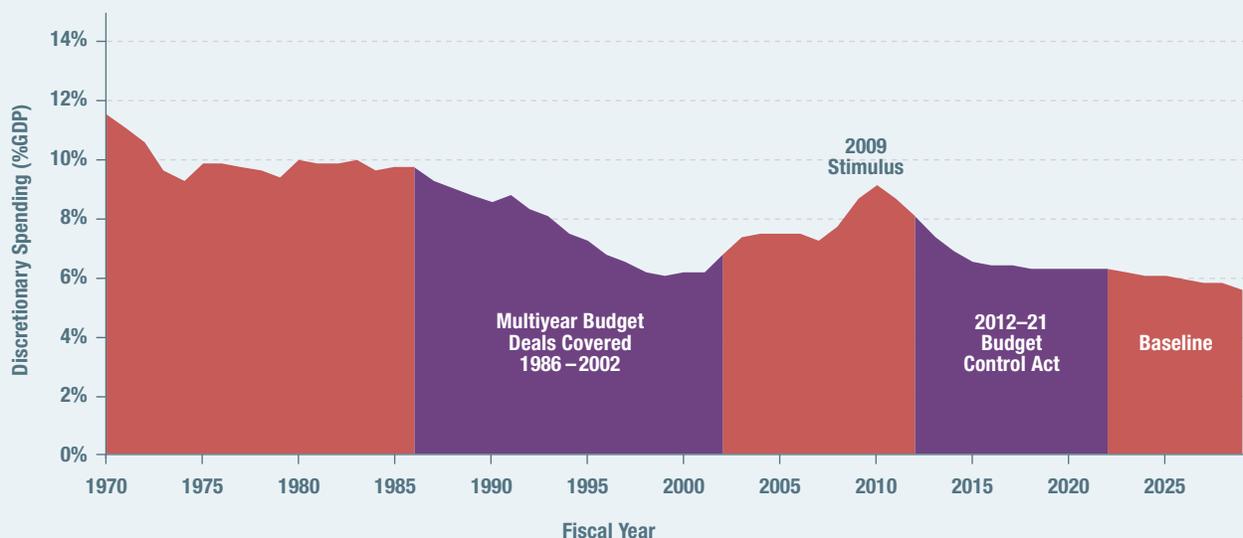
Past history shows that major congressional deals typically do not result from oppositional, confrontational, and deceptive negotiations. Negotiations seeking to pummel the other side into an embarrassing surrender for political gain are doomed to fail. Successful negotiations begin with an aspiration to craft an enduring deal in which both sides can declare victory. Key elements include:

- Repeated interactions and positive personal relationships.** Political scientists and social psychologists have shown that negotiators who have positive relationships are more likely to accurately represent their interests and appreciate the positions and constraints of the other side. Additionally, both sides are able to depoliticize disagreements, behave in an honest and trustworthy manner, and assess the honesty and trustworthiness of the other side.¹⁰² This framework suggests that successful negotiators
- Carefully determine the group of negotiators.** Beginning with a large group of negotiators can achieve more buy-in and set broad parameters. However, most successful agreements have been finalized by a smaller group of six to nine top congressional leaders (and staff) of both parties as well as top White House officials. Additionally, the negotiators should have a record of being able to work well across the aisle. History and the recommendation of a former successful White House budget negotiator both suggest that the president should be heavily engaged in the deliberations but not necessarily at the daily negotiating table.¹⁰³
- Use an integrative approach.** Deliberative negotiations assumed a fixed pie and begin with both sides making extreme demands while resisting moves to the middle. By contrast, integrative negotiations seek creative solutions to build a win-win deal. Both sides begin by specifically defining the problem together. This should focus less on legislative positions (such as “do not cut Medicare”) than on desired outcomes (ensure continued affordable and quality health care for retirees). Negotiators should

are more likely to be longtime incumbents, lawmakers with repeated interactions (such as committees), and members who regularly reach out to the other party.

FIGURE 10.

Past Budget Deals Have Reduced the Footprint of Discretionary Spending



Source: OMB Historical Table 8.4 and post-2018 figures reflect January 2019 CBO (current policy) baseline. Spending caps were enacted through 2002, yet bypassed in the final few years.

signal policy flexibility to achieve those outcomes and acknowledge the legitimacy of the other side's goals.¹⁰⁴

- From there, negotiators should explore creative policy options that can achieve those goals. As they get deeper into policy options, each side should provide a list of “must-haves” and “unacceptable” options, and even rank the order of their priorities. This is the point where modest horse-trading can begin if the two sides determine that their “unacceptables” do not strongly conflict with the other side’s “must-haves.” Along the way, negotiators should make good-faith concessions, seek reciprocity, and build trust. The purpose should be to help each side claim some victories and be able to sell the agreement to the rank-and-file members and voters. Solutions should be judged by their quality and their acceptability to both sides.
 - If lawmakers reach an impasse on priority issues, or find themselves in an inflexible distributive negotiation, they can expand the negotiation to other issues.¹⁰⁵ Former Rep. Barney Frank (D., Massachusetts) has observed: “Different priorities across issues are often the basis of an agreement.”¹⁰⁶ For example, when the 2010 deal to extend the expiring “Bush tax cuts” became a deliberative negotiation where Republicans and Democrats would not budge, negotiators sided with Republicans on a two-year extension, in return for winning Democratic votes with new provisions such as payroll tax relief and unemployment insurance extensions.¹⁰⁷ On issues where the parties have two opposite approaches that cannot be split in half (such as broad health-care reform), it may be helpful to expand the negotiations and give one party a major win on an unrelated issue. If getting down to the end of a negotiation, classic logrolling and side benefits may not represent efficient government but are also a way to expand the terrain.¹⁰⁸
 - **Run up the score.** Leaders negotiating an agreement is only the first step toward a sustained deal. Both sides of the negotiation need to sell the deal to their rank-and-file lawmakers, as well as to a voter base that is typically skeptical of compromises. Therefore, the two negotiating sides need to help each other achieve victories. In 1997, Clinton reportedly agreed to tax cuts in excess of what he considered necessary for a deal (and in excess of what polling supported) in order to better guarantee the deal’s Republican support.¹⁰⁹ In 2001, Republicans, who already had the votes to pass the USA PATRIOT Act, nevertheless made additional concessions to Democrats in order to achieve near-unanimous congressional support and thus enhance the law’s credibility with voters.¹¹⁰ By contrast, attempts to push through a major deal without bipartisan support—even when one party has the votes—often undermine the public legitimacy of the reforms, as shown by the 2010 Affordable Care Act.
 - **Maintain confidentiality.** Although the public desires transparency, it is impossible for negotiators to explore various options if they fear leaks that could enrage other lawmakers or voters. Leaks played a significant role in undermining the 2011 negotiations between Obama and Boehner, as well as the 2011 “Super Committee” negotiations. In both situations, trust evaporated, and lawmakers became reluctant to explore various creative solutions.¹¹¹ A similar principle to confidentiality is that nothing is agreed to until everything is agreed to. This approach allows lawmakers to tentatively agree to various concessions without fear of the other side refusing to make reciprocal concessions or leaking the concessions as a done deal.
 - **Avoid divisive and deceptive tactics.** Divisive tactics include personalizing issues, relitigating past disputes, lecturing, condescending, or dismissing the other side’s priorities. Deception includes maintaining secret information, misrepresenting one’s own position, and beginning with extreme positions as a negotiating ploy. Although it is tempting, negotiators should also avoid the intransigent tactic of rejecting a fair deal as a bluff, hoping for a better deal later.
- Nevertheless, it is true that strategic overreaching can work on a limited level. In the 1990 budget deal negotiations, the Republican push for lower capital-gains taxes and the Democratic push for higher income-tax rates both seemed unnecessary and an overreach, yet provided each side with an available concession that canceled out the other’s side’s proposal (the tax rate increases returned later, for other reasons). In the 1997 budget deal, congressional Democrats included in their “victories” the defeat of more extreme Republican proposals that may have been initially proposed simply to become bargaining chips. Strategic overreaching should be limited, as making too many unrealistic proposals will expose the tactic and undermine trust.
- **Playing hardball can backfire.** For a negotiating side that lacks leverage, walking out on a deal rarely makes sense. In 1990, the House Republican minority provided key votes to defeat the initial defi-

cit-reduction deal because it included new tax revenues. This forced Bush and Democratic leaders to seek more votes from House Democrats, which was accomplished by adding even larger tax increases. By contrast, many Democrats in 1985 were caught off guard by the initial support for the Gramm-Rudman-Hollings deficit targets. Once they realized that it would likely pass regardless of their opposition, they decided to remain within its legislative coalition by trying to shape the final deal—which they did by exempting a large portion of entitlement spending.

There are other ways in which hardball tactics have failed. In 2011, Obama seemingly had a tentative deal with Boehner for \$800 billion in new tax revenue (in return for entitlement reforms), yet the deal collapsed when the president instead requested (according to the president) or demanded (according to Republicans) an additional \$400 billion in taxes. In 1995, congressional Republicans had Clinton agreeing to significant spending savings, yet walked away and ended up with nothing after demanding additional concessions. Sometimes it is better to pocket a modest victory and move on.

Specific Recommendations

- **Set budgetary savings targets.** A target—such as \$2 trillion in savings over the decade, or 75-year solvency for Social Security—focuses negotiators on a shared goal and the size of the reforms they should examine to meet that goal. The target should be ambitious yet still realistic. And lawmakers should be especially wary of including future automatic spending cuts or tax increases that may prove politically unsustainable and thus be repealed (such as occurred following the 1997 and 2011 deals). Regardless of the target, the savings should be scored over decades—at least 20 years—to determine if lawmakers are prioritizing temporary Band-Aid savings over reforms that would truly avert a calamitous long-term debt burden.
- **Agree on a baseline—or a workaround.** Because savings are typically measured against the budget baseline, it is important to agree on an initial baseline. The CBO current law baseline assumes that Congress will allow temporary policies to expire, even if that means sharp automatic tax increases or spending cuts that Congress has no intention of allowing. By contrast, a current policy baseline assumes that Congress will cancel drastic automatic reforms and thus continue current tax-and-spending policies.

So for an expiring \$1 trillion tax cut, the current law baseline assumes the expiration (and thus a tax increase in the economy), while the current policy baseline assumes renewal—and thus means that the extension would not require offsets elsewhere.

There is a workaround if negotiators cannot decide which baseline to use. They could simply set long-term spending and tax targets. For example, if lawmakers follow the Simpson-Bowles practice of targeting a balanced budget in 2035 with taxes and spending at 21% of GDP, it does not matter which baseline is used. Lawmakers can renew and expire policies at will, as long as the final deal hits those targets. This approach has the added benefit of focusing lawmakers on the long-term savings of the policies (assuming that the target is at least 15 years away), rather than short-term reforms with minimal long-term savings.

- **Correctly track the policy concessions.** To the extent that negotiations move toward a tit-for-tat series of concessions, it is vitally important to correctly identify which reforms benefit each side of the negotiation. For example, past negotiations have often begun under the framework that Republicans want spending cuts, Democrats want tax increases, and lawmakers should aim for a specific ratio of those policies. Yet the partisan interests are not that clean. Spending cuts to defense and Medicare providers are often Democratic policies. Higher tax revenues from economic growth within tax reform are often a Republican priority. Democrats typically embrace tax rebates, while Republicans usually (but not always) prefer tax rate reductions instead. Additionally, past negotiators argued over whether user fees should be classified as tax increases (and thus as a Republican concession) or spending offsets (a Democratic concession).

Future budget negotiators should assign a neutral third party to track the concessions made, and determine if they are Republican, Democrat, or roughly equal concessions. Classifying is not an exact science, but it can avoid what has often become a rather large area of tension and confusion within negotiations.

- **Build momentum with low-hanging fruit.** Past negotiations have achieved large savings from less controversial reforms such as discretionary spending caps, user fees, and savings from small mandatory programs. As described earlier, the savings from those options may already have reached their feasible maximum from past deals, but they should be examined to begin the process of building a new savings package.

- **Offer the public tangible benefits.** Budget deals in 1985 and 2011 delayed the implementation of most of the painful reforms until after the next election. Relatively modest benefit expansions were also included in the 1983 Social Security reforms (higher benefits for disabled widow|er|s), 1990 and 1993 budget deals (EITC expansion), 1997 budget deal (tax cuts and CHIP), and 2011 BCA (expanded Pell Grants). A deficit-reduction deal will also be much more politically popular if it provides a tangible benefit to the public, such as a balanced budget, lower interest rates, or the avoidance of a penalty default such as sequestration.
- **Create automatic procedures for future savings.** Federal deficits are projected to grow significantly over the next several decades. Thus, laws that impose gradual reforms down the road can be both politically and economically sensible. In 1983, lawmakers could not have immediately increased the Social Security eligibility age without a fatal political backlash. So instead, they enacted reforms gradually raising the age beginning 17 years in the future, which faced much less political resistance. The approach essentially creates future “default reforms” that would have to be affirmatively replaced to not take effect.
- **Consider creating a commission.** The 1983 Social Security reforms were far too controversial to be enacted through regular politics. The creation of a bipartisan commission brought bipartisan credibility and problem-solving approaches to the issue, even if the final reforms were not crafted during official commission negotiations. The Simpson-Bowles and Breaux-Thomas commissions did not produce plans that met the threshold for approval, yet inspired reforms that were enacted in the following few years. Commissions can bring various stakeholders into the process (including outside groups and special interests), and build a shared problem-solving goal that does not always exist within traditional congressional negotiations.

Lessons for the Future

Trillion-dollar annual deficits and steeply rising debt will eventually force Congress and the White House to negotiate a fiscal consolidation. The only question is whether they will phase in gradual reforms soon or wait for an economic crisis to force drastic reforms. In any event, no grand bargain will take place without at least two of the three “primary ingredients” that emerge from the experience of the last several decades.

Public support for reform should come from lawmakers and advocates investing significant time in educating the public on the causes and consequences of rapidly expanding budget deficits. It is a common misconception that Americans could never care about federal deficits until the inevitable point at which they create a fiscal and economic crisis. The growing focus on climate change shows that people—particularly, younger Americans—are capable of advocating painful, forward-looking reforms to avert a coming crisis. And while budget projections may seem less scientific than climate projections, the retirement of 74 million baby boomers into Social Security and Medicare is not a theoretical forecast. It is a demographic reality that will bring staggering debt.

At the same time, the case for deficit reduction would be greatly enhanced by a fiscal goal that families can understand and support. The challenge is that balancing the budget is not feasible at this point, and interest rates are already relatively low (for now). Averting a future fiscal and economic crisis may be too theoretical and intangible, as is 75-year solvency for Social Security and Medicare. Perhaps lawmakers could track reduced interest costs and put a portion in a fund for tax rebates.

Next, lawmakers will need effective *penalty defaults* that can help shape future budget negotiations. The need to raise the debt limit—with the threat of a government shutdown—will no longer move Congress toward grand bargains, and pure spending-cap legislation will not secure Democratic support.

However, lawmakers can take a page from the 1983 Social Security reforms and enact increases in the eligibility age—and perhaps other reforms to Social Security and Medicare—that begin to phase in gradually. Congress might also put Social Security and Medicare on a 30-year budget path and include automatic reforms that would kick in if spending begins to exceed that path.¹¹²

More broadly, Congress and the White House could take automatic annual spending increases off autopilot—at a minimum, by ceasing to use inflation measures that overstate actual inflation)¹¹³—and even experiment with small automatic spending reductions. Similarly, Congress could consider tax triggers if the deficit increases too fast. The House and Senate could raise the supermajority thresholds necessary to waive the enforcement of budget rules. There are countless ways to create a legislative structure that incentivizes lawmakers to be fiscally responsible.

Finally, Congress and presidents will need to relearn the art of *healthy negotiations*.¹¹⁴ Reverse the partisanship, build trust, and learn how to negotiate effectively. Congress can hire more nonpartisan, professional staff at CBO, GAO, and elsewhere to analyze budget trends, draft budget-savings options, and facilitate bipartisan negotiations. It may be helpful for Congress to have a regular lecture series on integrative negotiating strategies, which can include former lawmakers who achieved impressive records of legislative achievement using these strategies. Elected Republicans and Democrats might consider spending more time getting to know each other as people; presidents might consider more outreach to both parties in Congress. Political parties cannot negotiate until they trust each other and respect the other side's vision and priorities. Simply put, lawmakers need to step away from Twitter and talk to colleagues. Given today's political and social climate, that will undoubtedly be considered a big ask—but seriously, is there any realistic alternative?

Conclusion

Budget deficits are on pace to soon exceed \$1 trillion, on their way to \$2 trillion within a decade—or higher, if interest rates rise. This deluge of debt will bring staggering interest costs to taxpayers, less investment, and a weaker economy. Yet a partisan White House and Congress pander to a polarized electorate that demands even more tax cuts and spending hikes. It is time for elected officials to take responsibility and practice leadership on this issue. That requires leveling with the American people about the dangers of rising deficits—and working together across parties to make the difficult decisions to avert an economic calamity. Past generations of lawmakers have shown the blueprint to bipartisan problem-solving. Today's partisan lawmakers must become leaders and work together for economic sustainability.

Endnotes

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- ⁹⁴ Darrell M. West, “Gramm-Rudman-Hollings and the Politics of Deficit Reduction,” *Annals of the American Academy of Political and Social Science* 499 (September 1988): 98–100.
- ⁹⁵ Woodward, *The Price of Politics*, p. 278.
- ⁹⁶ Margit Molnár, “Fiscal Consolidation: What Factors Determine the Success of Consolidation Efforts?” *OECD Journal: Economic Studies* 2012, no. 1 (November 2012): 123–49.
- ⁹⁷ Julio Escolano et al., “How Much Is a Lot? Historical Evidence on the Size of Fiscal Adjustments,” IMF Working Paper WP/14/179, September 2014.
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- ⁹⁹ Gallup, “Federal Budget Deficit.” The percentage of Americans concerned “a great deal” about the budget deficit has fallen from 64% in 2011 to 51% in 2018.
- ¹⁰⁰ Ross Douthat, “Confessions of a Columnist,” *New York Times*, Dec. 30, 2017.
- ¹⁰¹ Riedl, “A Comprehensive Federal Budget Plan.”
- ¹⁰² Warren and Mansbridge, “Deliberative Negotiations,” pp. 104–5.
- ¹⁰³ Hilley, *The Challenge of Legislation*, pp. 172–73.
- ¹⁰⁴ Warren and Mansbridge, “Deliberative Negotiations,” p. 93.
- ¹⁰⁵ Binder and Lee, “Making Deals in Congress,” pp. 58–59.
- ¹⁰⁶ *Ibid.*
- ¹⁰⁷ Michael Barber and Nolan McCarty, “Causes and Consequences of Polarization,” “Negotiating Agreements in Politics,” pp. 43–44.
- ¹⁰⁸ Warren and Mansbridge, “Deliberative Negotiations,” p. 113.
- ¹⁰⁹ Pianin and Chandler, “Newfound Trust.”
- ¹¹⁰ Binder and Lee, “Making Deals in Congress,” p. 60.
- ¹¹¹ *Ibid.*, pp. 63–64.
- ¹¹² This was a joint proposal of the Heritage Foundation and the Brookings Institution. Every five years, lawmakers would be required to ensure that these programs’ annual spending trends do not exceed their preset path. If Congress fails to rein in any overages, automatic reforms would be triggered to eliminate those overages. See Brookings-Heritage Fiscal Seminar, “Taking Back Our Fiscal Future,” April 2008.
- ¹¹³ Today’s chained consumer price index (C-CPI-U) is seen as more accurate than the traditional CPI-U (Consumer Price Index for All Urban Consumers) or CPI-W (Consumer Price Index for Urban Wage Earners and Clerical Workers). The 2017 Tax Cuts and Jobs Act switched much of the tax code to automatic chained CPI adjustments, yet federal spending formulas remain pegged to the old CPI.
- ¹¹⁴ For more on the mechanics of successful political negotiations and deal-making, see “Negotiating Agreement in Politics,” and Hilley, *The Challenge of Legislation*.



