Looking Back To Move Forward: The 1990 Budget Summit Revisited

NOVEMBER 2012

GEORGE MASON UNIVERSITY
Centers on the Public Service
Department of Public and International Affairs

Looking Back To Move Forward: The 1990 Budget Summit Revisited

NOVEMBER 2012

GEORGE MASON UNIVERSITY
Centers on the Public Service
Department of Public and International Affairs

Table of Contents

Looking Back To Move Forward: The 1990 Budget Summit Revisited

EXECUTIVE SUMMARY

A Capitol Hill forum in November 2012 reunited principals and other participants in the 1990 budget summit at Andrews Air Force Base. Those negotiations ultimately produced bipartisan agreement on spending cuts and revenue increases to reduce deficits. George Mason University's Centers on the Public Service and the Bipartisan Policy Center sponsored the session with additional support from Deloitte. The summary of this event is the first that will be included in George Mason University's oral and multi-media history of the federal budget process.

Those present in 1990 representing either the Administration or Congress spoke about their roles in the negotiations, as did leading staff and media figures who chronicled the event. Those present recalled the sequence of events, what forces compelled people to negotiate and eventually pushed them to agreement, and drew lessons from that experience for today's efforts to produce a large budget agreement. As today, control of the Presidency and Congress was divided, Republicans and Democrats split sharply over taxes and spending, and a looming sequester and other external forces pressured leaders to seek a multi-year deal to reduce deficits.

The 1990 agreement holds mixed lessons for meeting today's fiscal challenges. It showed that a big bipartisan agreement could be negotiated under considerable pressure, with leadership by the President and others. Despite wide differences over policy, the leaders of that day were able and willing to compromise at considerable political risk. The agreement also demonstrated the importance of budget process reforms in helping sustain agreements once reached. On the other hand, participants faced strong pressures to modify their privately reached deal, and were in fact forced back to the negotiating table when the first agreement was defeated in a House vote. Later, President Bush and others may have paid a political price for their efforts. Readers of the event summary will draw their own conclusions.

Looking Back To Move Forward: The 1990 Budget Summit Revisited

The 1990 Andrews Air Force Base Summit together brought key players from the Administration and Congress in what resulted in a five-year bipartisan budget agreement. President George H. W. Bush and Congressional Democrats agreed on a package of significant spending and revenue changes, saving over $500 billion over five years. Moreover, they locked in future discipline by achieving major budget process reforms, including adoption of discretionary spending caps and pay-as-you-go discipline on the mandatory and revenue sides of the budget. Just as now, there were doubts if this could be done. Skepticism always flourishes when the stakes are high and political leaders are squarely presented with hard choices. Indeed Congress rejected the first budget proposal, but the parties persevered to complete this historic project.

George Mason University's Centers on the Public Service, the Bipartisan Policy Center and Deloitte Consulting sponsored a session on the history of that 1990 budget agreement. Some of the key Administration and Congressional leaders spoke about their roles in the negotiations, along with leading staff and media figures who chronicled the event. This is the first event that will be included in George Mason University's oral and multi-media history of the federal budget process. It offers many lessons for today's budget challenges. History doesn't repeat itself, but it sometimes rhymes.

At a time when so many have lost confidence in the ability of our political leaders to solve the economic and budget problems we face, this session helps us remember that we in fact have faced these choices before and we have done so successfully. The key questions posed for this forum included: What forces prompted the agreement? How and why did the two parties bridge long standing differences? What was the legacy of the agreement for the nation's budget, economy and politics? What lessons does that experience hold for today?

FIRST PANEL: VOICES FROM LEADERS IN THE ROOM (WITH POSITIONS IN 1990)

Participants:

Speaker of the House Tom Foley; White House Chief of Staff and Governor John Sununu; Representative David Obey; House Appropriations Chairman, William Frenzel; Ranking Republican Member, House Budget Committee, Sen. Peter Domenici; Ranking Republican Member, Senate Budget Committee, Robert Reischauer; Director of the Congressional Budget Office, Barry Anderson, Associate Director of the Office of Management and Budget; and G. William Hoagland, Minority Staff Director, Senate Budget Committee (moderator). Participants recounted their experiences, major events, and advice for today's leaders.

SECOND PANEL: LESSONS FOR THE NEXT SUMMIT

Participants:

Jackie Calmes, New York Times budget reporter; Ron Elving, Senior Editor, National Public Radio; Michael Graetz, Deputy Assistant Secretary of Treasury and Professor, Columbia University; Phil Joyce, Professor, University of Maryland; Joseph Minarik, Vice President of Committee for Economic Development; and Paul Posner, Professor, George Mason University (moderator). Participants shared the media's perspective, their own personal experiences, and how the 1990 summit can be used to help address today's challenges.

BACKGROUND

In the spring of 1990, the economy was beginning to suffer from higher interest rates, deficits were growing, and a large spending sequester loomed. President Bush was informed that the OMB figures he had originally based his budget on were overly optimistic, not having factored in the recession or the impact of the savings and loan bailout. After the President's senior advisors met to discuss this issue, their advice centered on the need for a "big fix" and to engage Democratic leaders within Congress in a negotiation to reach a budget agreement.

Throughout the 1980s, attempts had been made to combat deficits. All fell short. The Gramm-Rudman-Hollings Balanced Budget Act, also known as the Emergency Deficit Control Act of 1985, imposed annual deficit targets moving toward budget balance. If annual targets were not met, the law provided for automatic spending cuts—a sequester. The 1987 law also increased the public debt limit and delayed by two years the deadline for passing a balanced budget. The prolonged stalemate prompted serious concerns about the capacity of a system characterized by divided government control—and a President of one party and Congress controlled by the other—to find agreement on a plan to control budget deficits.

ACCOUNT OF THE 1990 NEGOTIATIONS

Hoping to forge an agreement before sequestration, President Bush began meeting with top congressional leaders in May 1990. Little progress was made until late June when President Bush and House Speaker Foley agreed to put tax increases and entitlement reforms on the table.

John Sununu, the White House chief of staff to President Bush, recalled that the President's commitment to negotiations was triggered by several factors. One was the sequestration and threat of mandated cuts. By early October, the Congressional Budget Office's (CBO's) official deficit estimate projection had grown by an additional $20.3 billion, totaling $169.7 billion. At that level, sequester-mandated cuts would have been a huge 43.6% from non-personnel defense spending and 40.7% from non-defense accounts.[1]

Another factor pushing toward negotiations was pressure from the financial market. At a meeting with Secretary of Treasury Nick Brady and several banking experts in the spring of 1990, President Bush was made aware of serious concerns over rising interest rates and of the need for a multi-year budget plan that would provide a framework for stabilizing the financial situation. An expectation was created within the Administration that a major deficit reduction agreement would prompt the Federal Reserve to loosen monetary policy to lower interest rates. Moreover, as Middle East tensions spilled over into the August invasion of Kuwait by Iraq, President Bush was well aware that the coming international crisis called for an end to debilitating budgetary brinksmanship.

It is no wonder that President Bush said, "If I didn't have this budget problem hanging over my head, I would be loving this job."[2]

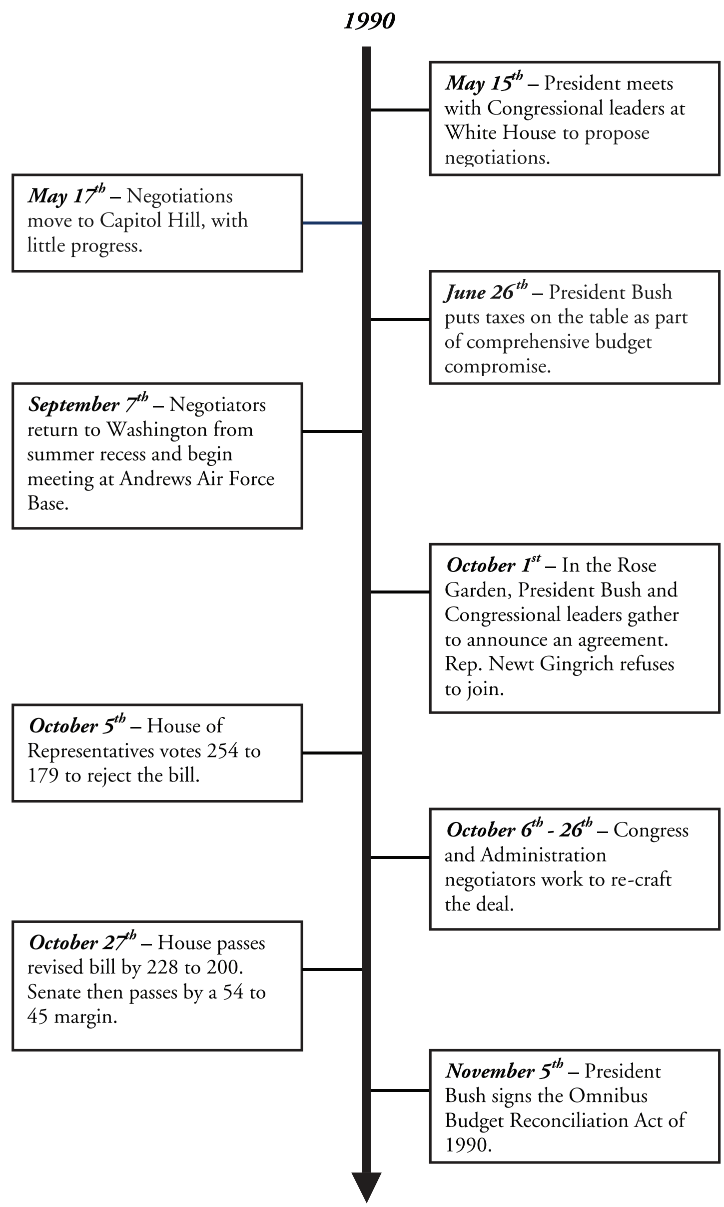
[1] "Budget Adopted After Long Battle." In *CQ Almanac 1990*, 46th ed., 111-66. Washington, DC: Congressional Quarterly, 1991. http://library.cqpress.com/cqalmanac/cqal90-1112280.

[2] Iwan Morgan, *The Age of Deficits: Presidents and Unbalance Budgets from Jimmy Carter to George W. Bush*. Lawrence, KS: University of Kansas Press, 2009, p. 137.

Starting from May 1990, negotiations went on for 139 days. Reaching a deal was arduous and involved many political principals and their staff. It is difficult to overestimate the influence of the late OMB Director Richard Darman in shepherding this agreement through the entire process, from framing the initial decision by the President to beginning negotiations for a major deal to the final negotiations in the fall that succeeded in reaching agreement.[3]

In early September, negotiations were moved to Andrews Air Force Base with fitful progress. But, the approach of a new fiscal year and looming sequester brought urgency to the task. By October 1, leaders stood together in the Rose Garden for President Bush's formal announcement of a budget deal. But even this was not the end, as majorities of House Republicans as well as Democrats voted against the agreement. The second agreement was finally enacted and signed on November 5 (See timeline below).

Figure 1. Timeline of Events



[3] See his book, *Who is in Control? Polar Politics and the Sensible Center*, New York, Diane Publishing Co, 1996.

Moving the negotiations out of Washington to Andrews Air Force base in September conferred advantages. John Sununu recalls that it helped deal with press pressures by controlling access. There were 26 negotiators from the Administration and Congress at the Andrews "summit", not including numerous staff supporting the negotiations. As the dawn of a new fiscal year approached, along with the threat of the sequester, President Bush brought put pressure on the negotiators by threatening not to sign the continuing resolution needed to keep the government operating beyond October 1. This prompted agreement to delegate final negotiations to a smaller group of eight top officials from the Administration and Congress, which finally reached the first agreement with 24 hours to spare before the deadline.

Reflecting the highly contentious nature of the budget conflict, even the announcement of victory sparked yet another round of political turmoil. John Sununu remembers that everyone was invited to the Rose Garden to announce the agreement. Newt Gingrich came to the White House, but he did not go to the Rose Garden, instead using the occasion to announce his opposition. His disagreement focused on the agreement to raise taxes, but he may have had another agenda. Jackie Calmes, the *New York Times* reporter [then reporting for the Wall Street Journal recalls a discussion with Mr. Gingrich:

> *I remember back in that time when Newt Gingrich in late 1989 or early 1990 had said to me that, "Actually it wouldn't be such a bad thing in President Bush was defeated in 1992" because he and his cohorts in the House (Republican caucus) could ride a big wave of wins in the 1994 midterms if history was any judge, which of course they went on to do.*

The House of Representatives voted 254 to 179 to reject the bill embodying the agreement, with a majority of House Democrats joining Gingrich and the conservative Republicans. Negotiators recrafted the deal and in late October, the House passed a new bill reflecting the renegotiated agreement by 228 to 200; and the Senate passed it by a 54 to 45 margin. Roughly equal numbers of Republicans and Democrats dissented. Finally on November 5th, President Bush signed the Omnibus Budget Reconciliation Act of 1990.

The final deal was smaller than the first, defeated one. Unlike the defeated first deal, the revenue increases in the final agreement went beyond excise tax and payroll tax increases to include changes to income tax rates, which arguably made the bill more palatable to Democrats. The personal exemption was phased out for higher income taxpayers and the top rate increased from 28 to 31 percent. However, Republicans were able to boast that the new rates eliminated the 33 percent income tax rate bubble that had affected many taxpayers since the 1986 tax reform. While avoiding capital gains tax cuts initially requested by the Bush Administration, the second agreement limited the top rate on capital gains to 28 percent.

The overall mix of spending cuts and revenue increases was consistent with initial Republican goals. The Congressional Budget Office estimated that the legislation would save $482 billion over 5 years, of which $158 billion would be from increased revenues. Significant cuts were achieved in discretionary spending, with caps below inflation for the five-year period, and in entitlements, with over $60 billion in Medicare cuts, principally for payments to health care providers.

While not as contentious at the time, the agreement's budget control framework proved to be important for the longer term. Abandoning the old Gramm-Rudman targets for deficits, the new Budget Enforcement Act substituted caps on discretionary appropriations and PAYGO discipline that required expansions of tax cuts or entitlement spending to be deficit neutral over a multi-year period. Both of these new constraints were backed by sequesters that would be enforced by OMB.

FORCES PROMPTING AGREEMENT IN 1990

A number of important factors contributed to agreement on a big budget deal in 1990. While hard to imagine today, the level of pessimism about the capacity of our divided government system to reach agreement on major budget reform was about as low as it is now. The budget emerged as a significant fault line in the clash between two increasingly polarized parties. A nation that forced President Carter to revise his budget when his deficit crested above $50 billion in 1980 witnessed deficits routinely climbing to levels nearly six times higher. Two successive attempts by Congress to legislate formulas to bring about budget balance—known as Gramm-Rudman I and II—proved ineffective. Partisan conflict under the Bush Presidency was poised to become even more strident in the wake of increased Democratic majorities in both House and Senate won in the 1988 elections.

Leadership

Breaking the partisan stalemate was triggered by a major shift in policy by President George H. W. Bush himself. A President who won his 1988 nomination by pledging not to raise taxes understood that any progress to untie the fiscal stalemate in Washington would have to start with both parties acknowledging need to put their own sacred cows on the table—taxes for Republicans and entitlements for Democrats.

The political risks for the President were obvious. Ron Elving, a senior NPR correspondent present in 1990 recalls that he got a call late at night from a House staffer who said: 'World to blow up tomorrow . . . POTUS will agree to raise taxes.' There was no media handle to get people interested in the budget talks until the drama of Bush's reversal of his pledge."

President Bush came in for praise from participants from both parties. David Obey, then Democratic Chair of House Appropriations reflected highly on President Bush saying. "I think he will go down in history as a significantly understated president, because he did a number of crucial things including the budgets deal that put America on the road towards a reduced deficit."

The President understood how sensitive the tax issue was in the Republican caucus. Sununu recalls that the first step in marshaling agreement from the President's standpoint was bringing about agreement among the House and Senate Republicans. The Administration worked closely with the leadership and with two major fiscal conservatives in each chamber—Senator Phil Gramm and House Minority Whip Newt Gingrich. The Republican caucus took the position that there could be no income tax rate increases. Moreover, the entire package had to consist of a ratio of 2 or 3 to 1 spending cuts over revenue increases. While the first agreement largely adhered to these policies, the defection of Gingrich and other House Republicans ironically brought a more liberal tax component into the final agreement, with higher personal rates and limits on personal exemptions.

Democratic Speaker Tom Foley had a difficult job as well, for he had to persuade reluctant Democratic members to support the first agreement, even though it entailed higher excise taxes and cuts to Medicare and other programs. He feared blame for torpedoing the summit and bringing about a government shutdown. However, Foley's leadership was not sufficient to quell Democratic desertion in the vote on the first agreement. David Obey, a leader of the Democratic protest, recalled incurring the wrath of the Speaker:

> *I don't know if you know it or not but our Speaker has a glass eye, and if you look at the speaker when he is really angry, as he is right now at us, when you look at him, you can tell which one is the glass eye because in that eye there's just a touch of human kindness.' It was a very hot caucus.*

William Frenzel, ranking Republican on the House Budget Committee at the time, observed that successful leaders require loyal followers. He noted that the members of Congress who were at Andrews largely deferred to their party leaders negotiating the agreement. However, those leaders suffered the desertion of many of the members on the first agreement. He recalls:

> *We've credited all the leaders and we know who they were. But you also have to give some credit to those who followed. And as John Sununu pointed out, and David [Obey] too, there were those who did not follow. And they altered the ultimate form of that particular agreement. You need to appoint a few people to do the negotiating, let them be the leaders, and hope that others follow.*

The Role of Crisis

It has become a truism in American politics that it takes a crisis for leaders to make hard choices, whether it be budget deficit reduction, financial regulatory reform or social security reform. There is no doubt that pressures bore down on all participants to lend a sense of urgency to making a deal. As noted before, sequesters several times larger than were implemented in 2013 faced the government, threatening defense and non-defense discretionary programs alike with unheard of cuts.

While no doubt critical to bring negotiators to the table, the sequesters alone did not provide enough impetus to get leaders to take great political risks and sacrifice or compromise long-held policy positions. When facing comparable sequesters in previous years, Congress waived them, and even changed the underlying Gramm-Rudman-Hollings law in 1987.

Rather the sequesters were joined with other external forces to create compelling conditions for a deficit reduction agreement. One of these forces was the economy. Unlike today, interest rates were high and growing and ultimately toppled the economy into a recession in 1990. Federal Reserve Board Chairman Alan Greenspan suggested that interest rate pressures would abate with a convincing deficit reduction agreement. The link between high rates and the deficit was made repeatedly by political and economic leaders, creating a personal stake in deficit reduction among the public concerned about their own personal finances. As former Congressional Budget Office Director Robert Reischauer said at the forum, higher interest rates are one of the great signaling devices that get the people behind the leaders in trying to tighten our belts.

Another force was the international security environment. With the invasion of Kuwait by Saddam Hussein in August 1990, neither party wanted to be blamed for the consequences of government shutdown and fiscal dysfunction.

These forces came to bear on decision makers through deadlines that were both credible and compelling. As Congressman Frenzel noted, making hard choices is a politically unnatural act that most leaders would only undertake when delay and obstruction are no longer options. With the sequester in the background, President Bush provided the convincing hammer when he threatened to not sign the continuing resolution, thereby threatening a government shutdown. This forced the negotiators at Andrews to reconstitute themselves as a leadership group of 8 that finally produced the agreement.

The Party System

In spite of divided government, the parties were able to rally behind common policy challenges twenty years ago in ways that seem to elude them today. Many today ascribe fiscal stalemate to divided government, with increasingly bitter debates between two sharply divided political parties. Divided government also marked the 1990 period, with Democrats holding both house and Senate. The difference was the ability of leaders to talk, at least in private, with relative openness and civility.

Some have suggested that divided government, while not easy, may facilitate budgetary agreement by guaranteeing that both parties share blame for difficult choices. Joe Minarik at the forum recalled that former House Budget Chairman John Spratt once said congressional majorities can do anything they want. Spratt, however, went on to say that minority parties have one thing that is absolutely necessary to political survival and that is absolution. By this, he meant that if you want to do something difficult and tough, you need the protection of involving and having agreement from the other side of the aisle.

Party leaders had personal relationships that enabled them to reach across the aisle to compromise. Compared to today, members of Congress were in Washington more often, with less frequent trips home to raise money and fend off threats from primary challengers. As a result, there was time for the growth of personal relationships that often crossed party lines—relationships that were useful in policy and budget negotiations.

Speaker Foley talked about how important his relationship was with President Bush, built on the days when they were members of Congress together:

> *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.*

Participants recalled that the differences between the parties in 1990 were less stark and bitter than today. Foley recalled that there were a critical number of "transpartisans"—members who wanted to work together to make good policy even if it meant going against party orthodoxies. Congressman Frenzel noted that in 1990 the parties were competitive but they were not polarized as they are today. As he said:

> *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 made life easier at that time.*

John Sununu remembers that the climate was more amenable to cross partisan agreement in 1990 than today. In addition to the 1990 budget agreement, Congress passed the Clean Air Bill, which had been languishing over a decade, as well as the Americans with Disabilities Act. He also noted the bipartisan interaction between the White House and Congress in responding to the invasion of Kuwait.

Opportunities

The 1990 negotiations also benefited from some unique windows of opportunity that had opened for policymakers as a result of the dissolution of the Soviet Union. Robert Reischauer noted that this event enabled major savings on the discretionary side of the budget.

> *The most important thing and sort of the unsung hero of our 1990 agreement is really Mikhail Gorbachev, because the Soviet Union fell apart during this period. The spending, the discretionary spending control was really all on the defense side. We went from 5.2% of GDP in 1990 for defense down to 4% by 1995 and by 2000 we were at 3% GDP. This was justified by the fact that the evil empire wasn't there to justify our large defense establishment. Had that not happened, this might be judged by history in a very different way from how it is now judged.*

Barry Anderson, who was sent by OMB Director Darman to negotiate the multi-year discretionary spending caps with staff with Senator Robert Byrd, Chairman of Senate Appropriations Committee, noted that agreement was easily reached to keep overall discretionary spending caps below the inflation adjusted baseline. In fact, defense cuts enabled overall caps to be met in the following years while increasing funding for domestic discretionary priorities favored by Congressional Democrats. Senator Byrd agreed to a low cap on discretionary over the five years, confident that Democrats would retake the Congress in 1992 and revise the cap levels.

CONTINUING POLITICAL CHALLENGES

The 1990 budget agreement has to be considered a major policy success. It not only achieved substantial deficit reduction, but it set the template for succeeding deficit reduction initiatives passed by Congress in 1993 and 1997. Together with a booming economy, these three agreements succeeded in creating a balanced budget earlier than anyone projected, bringing in their wake four consecutive years of budget surpluses lasting from 1998 to 2001. The budget process template continues to provide the framework for Congress to control discretionary spending as well as entitlement increases and tax cuts.

Nonetheless, the agreement itself had a mixed political legacy. The agreement most certainly affirmed Senator Domenici's judgment that even in a divided government, the two parties could come together on a large deficit reduction agreement. Nonetheless, considerable political turmoil followed in its wake. As noted before, both parties suffered the desertion of majorities of their members, reflecting the reluctance of increasingly intense party elites to make compromises on hard fought core party principles. President Bush in particular suffered the most serious erosion of support within his own party, stemming from the core conservatives who felt betrayed when he abandoned his no taxes pledge made at the party's 1988 convention.

The ability of leaders to justify these political sacrifices was limited by an economy that failed to lift off from the recession. Research on other nations' experiences with deficit reduction shows that most fiscal packages are put in place as the economy is taking off from a recession, enabling leaders to point to demonstrable progress flowing from the hard choices made to reduce the deficit. Unfortunately, the 1990 deal was followed by several more years of slow growth, prompting higher rather than lower deficits.

Senator Domenici expressed the dilemma best when he said:

> *My first reaction of the 1990 budget was that it was a failure largely because the goal of turning a $200 billion deficit in 1990 into a projected surplus in 1994 was not achieved by the agreement. In fact, by 1994, the deficits still sat at over $200 billion.*

Perhaps the inability to claim economic credit for the agreement was what ultimately caused the defeat of President Bush in the 1992 elections. Some at the forum claimed that political defeat was the inevitable price that must be paid if serious deficit reduction is to be achieved. Yet research on other nations suggests that fiscal consolidation often pays political dividends, as governments achieving lower deficits more often than not are returned to office.[4] The key is the ability of leaders to draw a line of sight for voters between the fiscal sacrifices legislated and more favorable economic outcomes either now or in the near future. President Bush was unable to achieve this political feat in 1992.

CONCLUSIONS: IMPLICATIONS FOR TODAY'S FISCAL CHALLENGES

Today, we face an even larger and more politically complicated fiscal challenge, at a time of seemingly wider partisan and ideological division. Efforts to negotiate a big agreement have so far failed. The budget process itself has seized up, moving from one short-term crisis to another. The sequester established in the 2011 Budget

[4] Brender, Adi, and Allan Drazen. "Political Implications of Fiscal Performance in OECD Countries." *Fiscal Indicators*. Rome: Banca D'Italia, 2006.

Control Act failed to prompt a broader agreement to avert it; and other crises await, including the need to pass appropriations to keep the government open and to raise the debt ceiling again by later this summer.

With the threat of continuing fiscal crisis handcuffing the policymaking process, the stage may well be set for yet another attempt by leaders to reach a grand bargain to reduce deficits and stabilize the unsustainable growth of publicly held federal debt. The lessons learned from the successful summit of 1990 may very well prove useful.

Participants at the forum articulated a number of lessons learned from the 1990 experience to enable a new "grand bargain" to be successful:

- A larger budget agreement will be possible only if both sides see it as solving political problems. President Bush ultimately saw an agreement as being necessary to enable him to tackle other pressing domestic and international challenges.
- In the course of getting a deal you have to make sure you don't completely force the other side to lose face. Each party to the agreement has to be able to muster a majority of their members to support it.
- Each party needs to balance its basic principles with the need to remain relevant to the negotiations. In 1990, House Republicans opposing the first bill succeeded only in forcing leaders to court more liberal Democrats to get the votes to pass the second and final bill.
- An agreement can arise once key players realize it is less harmful than alternatives. In 1990, the failure to reach agreement would force political leaders to either accept draconian sequesters or suffer the political embarrassment of yet again waiving budget constraints.
- The fiscal sacrifices need to be justified to publics by demonstrating clear and compelling economic and fiscal benefits either for today or the near future. The failure of the 1990 agreement to produce near term results helped cast a pall over its supporters.
- Efforts need to be made to insulate negotiators from the clamor of the multitude of interest groups and media. Whether it be labor negotiations or budget bargaining, too much transparency can stultify negotiations by limiting the degrees of freedom of negotiators to reach for new ways to resolve stalemates of the past.
- There is a tension between inclusiveness and decisiveness. On the one hand, summits are appropriate to ensure that all significant political actors have a stake in the outcome. As Joe Minarik said, the failure to engage minority parties and key interests will only hamper prospects for sustaining the agreement over the longer term. On the other hand, there is a need to keep the numbers of negotiators to a reasonable minimum. Having too many players in the room can damage prospects for the flexibility that leaders need to negotiate. It is no accident that the real progress in the 1990 negotiators occurred when the original group of 26 negotiators was reduced to the final 8 comprising the leaders of Congress and the Administration.
- Don't expect a budget process to deliver results when the underlying political system does not support an agreement. Phil Joyce warns us budget process reforms can only work if they support the underlying political consensus, rather than being expected to create such a consensus.

These lessons are generally applicable to many cross partisan negotiations in our system. The question remains—do leaders have the same incentives to come to agreement that they did in 1990? Most of our participants would say that today's economics and politics are less promising than they were then.

First, the sequesters of today are far more modest than poised to take effect in 1990, making them less compelling as a force for doing something different. Second, the short-term economic argument for deficit reduction is also far more ambiguous. As Robert Reischauer said, in 1990, deficit reduction offered the clear promise of reducing high interest rates at a time when tight monetary policy was responsible for a weakening economy. However, today, interest rates are at historic lows and the danger is that the fledgling economic recovery may be harmed rather than helped by near-term spending cuts and tax increases. In Reischauer's words:

> *For the average American out in Des Moines or wherever, the consequences of our fiscal irresponsibility are not great. You can feel badly that the country has huge deficits and is unwilling to live within its means, but in your day-to-day life, what you're worried about more is do I have a job, not worried about inflation. So one of the great signaling devices that gets the people behind the leaders in trying to tighten our belts is missing.*

Third, many would argue that our political system has become more polarized and gridlocked than it was in 1990. Many, such as Speaker Foley and Senator Domenici, worry that our politics has become more angry and divided. The moderates in American politics have been replaced by more ideologically committed members, beholden more to the median primary voters than to the median general election voter. While both parties gain from being seen as resolving national problems and promoting long term fiscal and economic health, some argue that many members today, particularly in the House, are insulated by increasingly homogenous districts with little prospects of general election challenge.

As if this challenging partisan political environment weren't challenging enough, members and Presidents alike face greater public pressures from a growing range of interest groups and increasingly fragmented and partisan oriented media.

Nonetheless, the prospects of a grand bargain along the lines of what was achieved in 1990 continue to be alluring to political leaders of all stripes. While deficits are not crowding out private investment in today's economy, they most surely are crowding out the ability of leaders to achieve other agendas, whether it be public investments such as early childhood education or reforming the corporate tax code. Several commissions have laid out road maps for how such a bargain might be structured and several false starts have been made in the past two years alone.

The parallels with 1990 are there. But as noted above, there are many differences as well. Mark Twain told us that history doesn't repeat itself, but it does rhyme.

It is too early to say whether or not 2013 will be the year when a major deficit reduction agreement is struck. But the model of the 1990 agreement remains as a testament to what our system did once, and may very well do again.

EVENT CO-ORGANIZERS

GEORGE MASON UNIVERSITY

BIPARTISAN POLICY CENTER

WITH SUPPORT FROM

Deloitte.

We thank Senator Kent Conrad for use of the Senate Budget Committee room for this event.

CENTERS ON THE PUBLIC SERVICE

Department of Public and International Affairs

http://publicservicecenters.gmu.edu/

AND

BIPARTISAN POLICY CENTER

WITH SUPPORT FROM

Deloitte.