Deficit Reduction in 1993: Clinton's First Budget

By James P. Pfiffner

The major theme of Bill Clinton's 1992 Presidential campaign had been the state of the economy. Clinton had promised to stimulate the economy, cut the deficit, invest in worker training and infrastructure, cut taxes for the middle class, and reform health care financing. But immediately after the inauguration the unveiling of his budget policy was delayed because the President was not sure whether the economy needed to be stimulated to pull it out of the recession or whether the deficit had to be attacked to ensure the longer-term health of the economy. The first several months of the Administration were a fight for the mind of the President over this issue.

In one corner of the budget policy debate were Clinton's campaign advisers who argued that the President should stick to his campaign promise for a middle-class tax cut and investments to help people deal with economic dislocations caused by a globalizing economy and layoffs. In the other corner were the "deficit hawks" who believed that the long-term health of the U.S. economy was dependent on reducing the deficit. The national debt had climbed from $1 trillion in 1981 to $4 trillion in 1993, the annual deficit would be nearly $300 billion if no changes were made, and interest on the debt approached $200 billion per year, which amounted to 14 percent of budget outlays. The country was eating the seed corn rather than investing it in the future.

The deficit hawks argued that in the short term an economic recovery depended upon keeping interest rates down and inflation in check. If the bond markets (moneylenders) thought that the Clinton economic plan would encourage inflation by continuing to increase the deficit, they would demand higher interest rates to loan money, and the recovery would be cut short. On the other hand, steep deficit reduction would not guarantee a robust recovery in the short term. Federal Reserve Board Chairman Alan Greenspan was reinforcing the same message that the deficit hawks were arguing. Clinton understood both sides of the economic arguments well and was clearly ambivalent, realizing the necessity of deficit reduction but not being eager to sacrifice his other policy initiatives and devote much of his initial political capital to fighting the deficit battle. For a while he thought he could do both at the same time.

One of the key turning points came during the transition in a meeting between Clinton and his main economic advisers on January 7, 1993. They warned that the deficit would soar to $360 billion in 1997 and $500 billion in 2000 if nothing was done to curb it. The advisers admitted that in the short term the cuts and taxes might slow the economy but in the longer term the economy would benefit. Clinton was facing the unfortunate dilemma that he was being forced to impose economic pain during his Presidency so that economic benefits would accrue in the future under his successors.

In a series of all-day sessions in early February, the outline of the Clinton economic plan was hammered out. The President decided to drop his promise for a middle-class tax cut, increase tax rates on the affluent, and propose a broad-based energy tax. The combination of tax increases with spending cuts would reduce the deficit by about $500 billion over five years. The first Congressional votes on the package came with consideration of the budget resolution, which set the outlines and totals of the budget. On March 18 the House passed the budget resolution on a party line vote of 243-183, with 11 Democrats defecting to vote no. The vote in the Senate was tougher for the Administration, but after six days of lobbying and 45 roll call votes to defeat Republican amendments, the Senate passed the budget resolution 54-45, with only one Democrat voting against the President's proposal.

A Democrat-Only Strategy

The Clinton Administration was criticized for its strategy of failing to appeal to moderate Republicans in Congress and to seek only Democratic votes, but in choosing this strategy the Administration was responding to Congressional signals. In late January 1993 Senator Robert Dole told Clinton at a White House meeting that the Republicans probably would not vote for his economic proposals since they included tax increases, thus giving Republicans a campaign issue. Another factor pushing the White House toward a Democrats-only strategy on the Hill was the polarization between the parties in the House. In order to get a budget bill through the House, the Administration had to hold most of the liberal Democrats and could not afford to lose them by appealing to Republicans. This strategy was encouraged by the Democratic leadership.

In late May the Clinton budget was considered in the House. Although both chambers had passed the budget resolution that set out the totals and general outlines of the plan, the reconciliation bill was the enforcing document that laid out the details of spending cuts and tax increases that would be used to reach the totals. After a grueling fight in the House and the granting of many political favors, the President won the battle on May 27 by a vote of 219-213, with 38 Democrats voting against the bill and no Republicans voting in favor. On June 24 after another exhausting fight, during which the BTU tax was dropped and replaced with a 4.3 cent per gallon gas tax, the Senate passed its bill with Vice President Al Gore breaking a 49-49 tie.

But the fight was not over. Both Houses had passed different versions of the reconciliation bill and the differences had to be ironed out in conference committee and brought back to the floor of both chambers for final votes before it could go to the President for his signature. In July, in preparation for the final reconciliation votes Clinton again became intensely involved in lobbying House Members for their votes. At one point Clinton had five Members of the House on separate phone lines at the same time. The President's personal involvement may have been excessive, but it was necessary to win the votes of wavering Members. When the Members saw how desperate the Administration was for votes, they held their commitments in order to bargain for special deals for their districts. The House vote again was extremely close, with a 218-216 win. The final Senate vote was 51-50, with the Vice President again casting the tie-breaking vote.

The budget votes were important in that they made a significant contribution to deficit reduction, but they also demonstrated how fragile support for the President was in Congress. The reconciliation packages were the only major pieces of legislation since World War II that were adopted without one vote from the opposition party.

Lessons Learned

At times it is necessary for the President to become personally involved in active trading for votes in order to win a closely fought, important policy battle. A closely divided Congress makes coalition building difficult, and seeking votes from only one party in Congress makes a President vulnerable to offering concessions to his own party.

Insofar as the deficit reduction package helped (along with President George H.W. Bush's 1990 budget package) to lay the groundwork for the historic economic expansion of the 1990s, it may be appropriate to break campaign promises because of changing circumstances.

A President will probably not get much political credit in the short term for fiscal prudence.