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**Taking fiscal policy out of the postwar U.S. fiscal constitution:
An examination of the Kennedy Tax Cut of 1964 and the
Gramm-Rudman Act of 1985**

Gordon, Cameron Elliott, Ph.D.

City University of New York, 1994

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TAKING FISCAL POLICY OUT OF THE POSTWAR
U.S. FISCAL CONSTITUTION:
AN EXAMINATION
OF THE KENNEDY TAX CUT OF 1964
AND THE GRAMM-RUDMAN ACT OF 1985

by

CAMERON ELLIOTT GORDON

A dissertation submitted to the Graduate Faculty in Economics
in partial fulfillment of the requirements for the degree of
Doctor of Philosophy, The City University of New York

1994

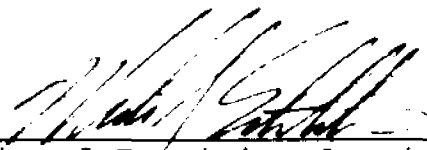
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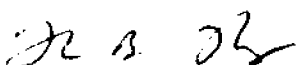
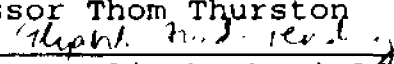
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April 21, 1994
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THE CITY UNIVERSITY OF NEW YORK

Abstract

TAKING FISCAL POLICY OUT OF THE POSTWAR
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CAMERON ELLIOTT GORDON

Adviser: Professor Michael Edelstein

This dissertation argues that fiscal activism - the use of tax and expenditure mechanisms to counteract fluctuations in the business cycle - peaked with the passage of the Kennedy Tax Cut in 1964 and then ended completely with the passage of the Emergency Balanced Budget and Deficit Control Act of 1985, otherwise known as the Gramm-Rudman Act. In addition, it is argued that although fiscal activism was used heavily in America roughly between 1965 and 1980, that it was never a fully accepted policy regimen even during this heyday.

To examine this hypothesis in greater detail, The Congressional debates over the Kennedy Tax Cut and Gramm-Rudman are analyzed; regional, economic and demographic patterns in the constituencies behind the winning and losing coalitions are examined; characteristics of Congressional institutions are described; and macroeconomic and budgetary performance over the period is assessed. Also broad patterns

in budget process and tax and expenditure acts over the postwar period are detailed. The concept of a fiscal constitution - a set of formal and informal rules governing the raising and spending of revenue and the balance between the two - is used to organize the inquiry.

Acknowledgements

How does one make an acknowledgements page either interesting or informative to readers unfamiliar with the people involved? I've concluded that such an accomplishment with regards to the former is probably not possible, and hence will not attempt to write an interesting acknowledgements section. However, there are a number of people who must be recognized. So that this section will at least convey this information in an easy and clear manner, I provide the following table.

<u>Name</u>	<u>Comments</u>
Dr. Michael Edelstein, Queens College	My thesis adviser, who provided the right amount of both encouragement and criticism.
Dr. Thom Thurston, Queens College	A reader on my committee who provided many helpful comments.
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A professor at Vassar College who first exposed me to economic history and made it my lifelong passion.

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Wesleyan University

The teacher of my first college economics course and true devotee of the discipline, whose devotion rubbed off on me. Ironically, one of the assignments in his class was a role playing game reenacting the Kennedy Tax Cut deliberations (I played a Council of Economics Advisers member).

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Council

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My wife, who is the most important part of my life, and besides whom this dissertation and the degree it represents pale to triviality. It goes without saying that she put up with my neglect and yet managed to support me as I toiled away on this work.

The order of this list implies nothing about the relative

importance of those listed and is certainly far from complete.

But all lists must come to an end and I'll leave this one where it is. My thanks to all whom I've neglected to mention. You know who you are, and so do I.

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INTRODUCTION: Plan of the Work

When the Gramm-Rudman Deficit Reduction amendment was debated in Congress in 1985, the frustration in the remarks of both opponents and proponents was almost palpable. Senator Mattingly, a Republican from Georgia, supported the measure in almost desperate terms:

The time has come for action. We've gone too far too long, voting for spending up here and then going home and wringing our hands over the national debt...I want to see something passed in this body, some action taken now that will move us back to fiscal sanity. Whether it is enhanced rescission, the balanced budget amendment, the line-item veto, or Gramm-Rudman-Hollings, I want to be able to go back home to Georgia and tell them that we are going to deal with the deficits (Congressional Record, 10/6/85, S12751).

This sort of "let's do something, anything" argument in favor of Gramm-Rudman was, of course, used by opponents in arguing against the amendment. Senator Daniel Patrick Moynihan's comments, a Democrat from New York, made such an argument in his typically academic way:

We have been at the process of developing budgets in a professional basis since Warren Harding's administration. A third generation of persons are now working in that Bureau of the Budget, and they take it seriously. We get more work out of them than I suppose any other group of public servants in America, considering their anonymity and the rewards they get. They do an important job and try to do it well, and their first principle is priority.

Their second principle, Mr. President, is the acceptance of democratically elected political direction. The last thing these career officers want to do is to be told, 'Take the political decisions of the Republic and you make them.' That is what this [Act] asks of them (Congressional Record 10/7/85, S12822).

Gramm-Rudman was enacted into law after much debate of

this sort. The feeling at the time was largely one of resignation, that fiscal policy had gotten beyond the control of policymakers and that a perhaps reckless attempt to cut the Gordian now might just work where nothing else had. As Senator Rudman was widely quoted as saying at the time, Gramm-Rudman-Hollings was a bad idea whose time had come.

How far the road had come from the days of Camelot, when the fiscal revolution in America had reached its peak with the passage of the Kennedy Tax Cut of 1964. Walter Heller, Kennedy's Chairman of the Council of Economic Advisers, in an interview long after his retirement, painted an almost Olympian picture of economic policymaking in that Administration:

You always had a feeling that the most competent ideas would win out...We said... 'There's no chance of having inflation in this slack economy.' And in those days, long before 'stagflation' and 'momentum inflation', there really wasn't.

Kennedy's conviction was really a dedication to the democratic process. He really, honestly, felt that you had to persuade the public, or least the major movers and shakers, policymakers, men and women of affairs; they had to understand (Hargrove and Morley 1984, 176-180).

This dissertation will examine these two points on the road followed by American fiscal policy. It will be argued that the first point on the road, the Kennedy Tax Cut of 1964, was a position of great height with expansive views, where fiscal policymakers saw, or thought they could see, the economic landscape below with utmost clarity. It will be further argued that the second point on the road, the Gramm-

Rudman Act of 1985, was a nadir, a low point reached after a rocky downward journey of some twenty years, where there was little light and even less vision.

The journey which occurred between these two points will not be exhaustively examined, except to demonstrate that these two points are indeed exceptionally low and high points of fiscal activism in the postwar period.

The vista and valley will be studied primarily as acts of legislation; thus Congress will be the focus of the analysis, as will the key votes themselves. These include four votes on Gramm-Rudman and six on the Kennedy Tax Cut, unevenly split between the House and the Senate. The votes on the Kennedy tax cut of 1964 which are examined are:

1. a 1963 House vote to pass the Kennedy tax cut;
2. a 1963 House vote to prevent the Kennedy tax cut from taking effect unless the President specified that the FY63 budget was less than \$97 billion and the FY 64 budget was less than \$98 billion;
3. a 1964 House vote to accept the Kennedy tax cut;
4. a 1964 House vote to adopt the conference report on the Kennedy tax cut;
5. a 1964 Senate vote to increase tax rates to 1963 levels if spending was greater than \$100 billion in any fiscal year;
6. a 1964 Senate vote to adopt the conference report on the 1964 Kennedy tax cut.

The votes analyzed on the Gramm-Rudman Act are:

7. a 1985 House vote to approve the Gramm-Rudman conference report;
8. a 1985 Senate vote on the Gramm-Rudman amendment;
9. a 1985 Senate vote to pass the joint resolution of Gramm-Rudman;
10. a 1985 Senate vote to accept the Gramm-Rudman conference report.

In the process of producing this legislation, Congress produced a great deal of words. Having recounted the arguments used in both sides of the debate, the reasons why one side prevailed over the other will be examined. The logical and emotional appeals of the various arguments and counter-arguments will be assessed. Then, the regional, economic and partisan characteristics of the winning and losing coalitions will be analyzed. Then there will be an attempt to examine and compare the nature of Congressional institutions and processes which were dominant during the passages of the two bills. Finally, trends in the Federal budget and macroeconomic performance of the United States will be analyzed to provide the economic and budgetary context and constraints in which the decisions to undertake Gramm-Rudman and the Kennedy tax cut took place. Taken together, the patterns found in the various levels will be compared, and their dissonances and consonances interpreted. The overall

framework for this analysis will be the concept of the fiscal constitution. James Buchanan and Richard Wagner define this concept as "the prevailing rules guiding fiscal choice", "whether...incorporated formally in some legally binding and explicitly constitutional document or merely in a set of customary, traditional, and widely accepted precepts (Buchanan and Wagner 1977, 21)." It will be argued that fiscal activism was never very well integrated into the American fiscal constitution, although, for different reasons, chronic deficits did and have become an ongoing part of this notional document. The Kennedy Tax Cut represented the farthest advance of explicit Keynesian amendments to the fiscal constitution. These amendments by themselves were never that popular, and their framers sought to buttress them with very non-Keynesian arguments. Partly for this reason, and partly because the tax cut itself set in motion various fiscal and political dynamics ultimately unfavorable to fiscal activism, these amendments were repealed by Gramm-Rudman, if, indeed, they were ever really ratified in the first place.

CHAPTER 1: THE PHILOSOPHICAL BASIS OF A FISCAL CONSTITUTION

In their famous book, Democracy in Deficit, James Buchanan and Richard Wagner define the notion of "fiscal constitution": "Whether they are incorporated formally in some legally binding and explicitly constitutional document or merely in a set of customary, traditional, and widely accepted precepts, we can describe the prevailing rules guiding fiscal choice as a 'fiscal constitution.' (Buchanan and Wagner 1977, 21)"

For Buchanan and Wagner, the government has an implicit contract with those that it serves regarding the amount of, and way in which, revenues are raised, the purposes to which those revenues are devoted, and the balance between the two. This contract, the authors argue, acts as a necessary constraint on state action, to ensure that state power remains tethered to, and controlled by, the preferences of the people.

If that fiscal constitution is weakened, only bad results can ensue, and that is precisely what occurred as a result of Keynesian thinking, according to Buchanan and Wagner:

As we have noted, throughout the pre-Keynesian era, the effective fiscal constitution was based on the central principle that public finance and private finance are analogous, and that the norms for prudent conduct are similar. Barring extraordinary circumstances, public expenditures were supposed to be financed by taxation, just as private spending was supposed to be financed from income.

The pre-Keynesian or classical fiscal constitution was not written in any formal set of rules. It was, nonetheless, almost universally accepted. And its importance lay in its influence in constraining the profligacy of all persons, members of the

public along with the politicians who acted for them. Because expenditures were expected to be financed from taxation, there was less temptation for dominant political coalitions to use the political process to implement direct income transfers among groups. Once the expenditure-taxation nexus was broken, however, the opportunities for such income transfers were increased....Governments increasingly enact public expenditure programs that confer benefits on special segments of the population, with the cost borne by the taxpayers generally. Many such programs might not be financed in the face of strenuous taxpayer resistance, but might well secure acceptance under debt finance. The hostility to the expenditure programs is reduced in this way, and budgets rise; intergroup income transfers multiply (Buchanan and Wagner 1977, 21).

Buchanan and Wagner's arguments demonstrate the power and the pitfalls of using a general framework to organize historical inquiry. The power of the general approach is that it offers a useful, perhaps essential way of arranging disparate historical facts into a coherent pattern by which those disparate facts can be connected to one another and understood.

In this sense, the fiscal constitution is an especially useful way of approaching fiscal history. The notion of a set of rules governing State spending and taxing is a handy construct to use in analyzing United States fiscal policy after World War II for two reasons. First, written rules governing Federal expenditures and revenues do, in fact, exist. Congress has had a formal set of budgetary rules since 1974, and an informal and decentralized set of rules before that. The Executive branch has had formal budgetary institutions for far longer, since 1921 (Ippolito 1981).

Where formal rules do not apply, public attitudes, political realities, institutional prerogatives, and expert thinking have filled in the gaps. While often hard to demonstrate concretely, these more informal and nascent budgetary rules constrain and direct much of the public action on taxes and spending which have been taken since 1945. Whether these formal and informal rules can be literally said to be a constitution is probably taking matters too far, but there is no question that the construct is a useful way of organizing an analysis of the fiscal role of the postwar American state. Much of the rest of this work will be devoted to describing this conceptual constitution.

Such grand organizing schemes often gain even more explanatory power when suffused with a teleology. It may seem strange to hear mention of such an archaic term. Few writers nowadays refer explicitly to teleology when analyzing the state, or anything else for that matter. The term is derived from the Greek telos (meaning end or goal) and logos (meaning theory or account) and refers simultaneously to a belief that a particular phenomenon under study has a purpose and the attempt to explain how the characteristics of the phenomenon in question lead to fulfillment of that purpose (W.T. Jones 1969, 222).

Modern social science supposedly eschews any notion of purposefulness when assessing social phenomenon. There may be causes and effects, and in the case of individual actors or

groups of actors there are certainly intentions. But the Aristotelian notion that things which social scientists study have some sort of predetermined goal seems decidedly unscientific to modern minds.

Yet Buchanan and Wagner use teleology to great effect. They, like others of the Leviathan school, assume that the State and its actors are self-interested and self-aggrandizing. Many in this cynical age see such a premise as self-evident and regard as naive any more generous-minded deviation from it. Nonetheless, this premise posits a fundamental tendency in the State which makes certain courses of action, in this case a tyrannical government, more likely than others, and hence makes certain types of events, such as a switch to debt finance, more dangerous than others.

The increase in explanatory power that frameworks and teleology buy comes at a cost which can outweigh the benefits purchased. For one thing, frameworks can take on a life of their own. Facts often do not tell nice neat stories; frameworks usually do and the temptation on the part of their authors is often to put data in classifications in which they do not belong or to ignore the facts altogether, particularly inconvenient ones. In the worst case, frameworks can become ends in themselves, rather than means to a better understanding of the world.

Teleology can offer the same trap to analysts, only worse. The logic of an assumed purposefulness can be more

compelling than a mere framework; as rhetorical or persuasive devices, a teleology can be quite powerful. Indeed, Leviathan theorists use the assumed self-aggrandizing tendency of the state quite effectively to convince the readers of the truth of the propositions being offered. The danger, of course, is that teleology can degrade all too easily into tautology, and rhetorical power can lead one to make sense of something where there is no sense, or where the actual essence of things is really quite different.

Thus Leviathan and the fiscal constitution are especially powerful when linked: the latter offers a useful way of organizing certain facts for more penetrating analysis, while the former offers a compelling raison d'être for the State which increases the explanatory power of the framework. But by the same token, they can as easily be decoupled. Leviathan can and often is attached to organizing principles other than the fiscal constitution, while the fiscal constitution can be used to organize facts without assuming a Leviathan. Indeed, I will be using the fiscal constitution in just this way later on in the work.

There are, however, many other frameworks of the State and they are usually linked with a teleology of some sort. Writers outside of the Leviathan school often use the same methodological devices: they implicitly ask and answer the question of what the potential of the state is: good or evil or neither. They then ask what characteristics of the state -

its decisionmakers, institutions, and so forth - operate to fulfill this potential. And they organize these various facts into a set of central organizing principles, ranging from interest groups to economic classes.

This chapter will review the theoretical debate about statecraft (which often comes down to a debate about the natural tendency of the state, and its ability in a given historical circumstance to fulfill that tendency). The argument will be made that despite some strong advantages of other approaches, the grand theoretical and teleological way of analyzing policy has been fraught with difficulty. The approach that this work employs is to use the organizing principle of the fiscal constitution, minus a teleology, to focus on two key events in U.S. fiscal history. Just as the approach is narrow, so too will be the conclusions.

The State as Good, Potentially and Actually

Perhaps one of the oldest traditions in the study of government is the notion that the state exists to serve the public good. The main differences in this tradition tend to revolve around how a government discerns and carries out social goals. These traditions generally admit that bad policies can and do get formulated and implemented, but ultimately each of these theories sees the state's active role in economics as a positive good, and mistakes as being regrettable but correctable.

The simplest (though not necessarily simplistic) view of

public policy is found in the state-centered and expert schools of thought. State-centered theory holds that policy begins in the offices of government bureaus and agencies and that the ultimate goal of such policies is to improve society. Hugh Heclo and Theda Skocpol are leading advocates of this view (Orloff and Skocpol 1984, 726-750; Heclo 1974).

In this schema, bureaucrats view the various facets of reality; process that information and transform it into a policy which solves problems indicated by it; execute the policy through the organs of the state; and then see what happens and correct mistakes which may have been made. In this model, politics exist mainly as an input into the policy process: it is the job of government officials to account for and balance various interests in crafting solutions which are for the good of all.

A variant of state-centered theory can be found in the pluralist tradition. Interests exist in both models: in state-centered theory, bureaucrats sort through interests to arrive at a socially desirable policy while in pluralist models interests define the state through their clashes and collusion. Political scientists Charles Lindblom and Robert Dahl each fall within this camp. Broadly speaking, their vision of the political system is one characterized by open access for interest groups who then compete between and within themselves to formulate policy (Dahl; Lindblom 1953, 1977).

The pluralist and state-centered modes of thought fit

into a sociological framework known as functionalism (For further discussion see George and Wilding in Shalev 1983; Therborn 1986; Parsons 1949). Functionalists see society like a body, where each part serves a function for a larger whole. Indeed, functionalists are perhaps the closest modern analogue to Aristotelian political theory.

Functionalism encompasses a wide ranges of viewpoints. Some functionalists, for example, see society in a constant state of conflict and are not particularly sanguine about the state's ability to carry out worthwhile policies. Nonetheless, functionalists, whether emphasizing conflict or compromise agree that various groups in society must accept the "rules of the game" in order for society to work and both schools accept the legitimacy of these interests as essential parts of a living whole.

Karl Polanyi is one author whose ideas fit into the more optimistic camp of functionalist views of the state. For Polanyi (1957), society demands certain things of human beings and human beings demand certain things of society. As much as this superficial description of Polanyi's basic premise may sound like a social contract, the nature of the relationship between society and individual is not so much an exchange as it is a set of mutual customs, traditions and obligations, more like a blood-line than a formal agreement.

Polanyi sees the traditional role of a social order as providing a function and place for every human being in which

individuals accepted their place in the existing social order. The advent of a market economy upset this delicate relationship. Markets destabilized society, introduced rapid change, and invented the idea that human beings are dispensable if they do not produce what the market wants. The state stepped in when England was industrializing early on by providing poorhouse relief to those for whom the market had no use.

Polanyi believes that these original policies were failures because they did not actually find a place for "marginal" members of society but merely kept them from starving. In the end, the tension between the traditional functions of civilization and the organizing principle of the market was, and is, too great. However, the past cannot be recovered and perhaps should not be recovered even if such a thing were possible. Clearly, the state is one of the few institutions in society which can rebuild sustaining social relationships.

Polanyi is a functionalist; in many ways he can also be said to be an "historicist" explaining the present by focusing on its roots in the past and seeing the future as heavily determined by the momentum of those past events. In this sense Kirsten Gronjberg's rights theory is also historicist.

Gronjberg (1977) claims that the welfare state is a cultural rather than economic phenomenon. As industrialization proceeds, citizenship rights expand to include economic as

well as political rights. Thus the state's role in the economy is not only justified but demanded by citizens seeking a modicum of economic as well as communal stability.

An historicist of a somewhat different nature is Harold Wilensky (1975). Wilensky believes that industrialization is a process which requires many prerequisites in the form of social investments and the like. At the same time, industrialization creates many conflicts which need to be settled, or at least managed. Wilensky argues that only the state can respond to both of those needs and that the welfare state has been the form of that response. Although similar in certain respects to Marxist arguments to be reviewed later, Wilensky is no determinist: the welfare state is only one of the courses of state action which could have been taken and is by no means immutable.

There are economists whose views can be said to fit into the various schools of political thought outlined above. State-centered theories are implicitly subscribed to in many treatises which advocate an industrial policy (for an overview see Krugman 1983). These economists believe that experts can predict, within some band of uncertainty of course, which policies will promote economic growth and which will not, and they believe that such policies can be implemented effectively and should be adopted.

The historical descriptions of fiscal policy by former Council of Economic Advisers (CEA) heads Arthur Okun (1969)

and James Tobin (1972) subscribe to the notion of benevolent but partisan economic expertise. Okun and Tobin argue that the government is a collection of experts each of whom represent a particular interest or constituency. A full, informed debate takes place in the councils of policy and an internal consensus is reached. Politics are considered to be a legitimate reflection of public sentiment, to be taken into account when formulating a course of action. When a policy is finally arrived at, its aim is to increase social welfare; however, it is recognized that the ultimate decision rests with the President and other elected officials who may override the decision for legitimate political reasons. In the end, debate "losers" close ranks with "winners" to promote the policy arrived at - public dissent within the government is not allowed; to express such dissent, one must resign from the government

In describing the general context of policy-making, the Okun-Tobin approach is pluralist; but these authors, and former heads of the CEA in general prior to the Reagan era, think that macroeconomic policy itself is a neutral and technical area with political ramifications. The CEA is usually described as a body without a constituency, giving unbiased advice which is sometimes wrong, but wrong only for reasons of lack of knowledge rather than self-interest. (For direct statements by former CEA heads as to their views on the CEA's neutrality, see Hargrove and Morley 1984).

By contrast, Simon Kuznets' views fit historicist notions into a neoclassical framework. State spending expands along with industrialization as societies grow richer simply because state services are normal goods whose consumption grows with income. To the extent fiscal policy is one of these goods, its provision will also expand with per capita income (ceteris paribus, of course) (Kuznets).

Other economists who favor an active state as a necessary good generally see private actors and institutions as subject to as much or more uncertainty, institutional rigidities and the like as public actors. For these theorists, an active state must intervene to correct macroeconomic and other disturbances caused by systematic defects in private markets.

John Maynard Keynes is the grand patriarch of this type of approach. For Keynes (1937) markets are dominated by "animal spirits", rules of thumb, customs and other rigidities which kept markets from adjusting fully. These rigidities demand state action of some sort, quite often fiscal stimulus, as opposed to the monetary solutions which neo-classicists felt were sufficient when markets failed to reach equilibrium.

Keynes was followed by the Post-Keynesians and New Keynesians. Advocates from the former school argue that both labor and product markets are dualistic. The producers' sector is split between a competitive, low-wage sector and an oligopolistic, capital intensive sector. Labor markets are split into a high-paying, high skill sector and low-paying,

low skills sector. While both producers and laborers respond to incentives, their preferences are also in large part determined by the structure of industry and population (Applebaum in Piore 1979).

Other Post-Keynesians emphasize the uncertainty cloaked around many of the parameters critical to private investment and consumption decisions. Hyman Minsky argues that money and financial relationships are integral parts of the determination of real aggregate demand and that these connections are often speculative and unpredictable. Agents seek to maximize but often fail to do so, often failing even to maintain their prior economic position as they are overwhelmed by "animal spirits" in the capital markets which lead to wild security price swings or are forced by the institutional arrangements of capitalistic finance to take increasingly risky positions (Minsky in Kindleberger and Laffargue 1982, 13-38).

New Keynesians make the central assumption that nominal prices are sticky, thus requiring that other real factors must adjust to changes in economic conditions. One New Keynesian model is essentially like Minsky's in that firms adjust real output and employment quantities in response to financial changes. Thus, when demand falls, balance sheets suffer disproportionately as all assets related to the production of that output fall while commitments made when originally acquiring those assets do not fall commensurately. The

balance sheet can only be restored slowly through retained earnings and so reductions in investment and output may be significantly long-lived. Furthermore, because its impact on the balance sheet and income statement is more immediate and predictable, firms often adjust employment rather than wages. As in Minsky's model, institutional financial arrangements are very important for real activity, but unlike the predictions of his model, private agents always seek to fully maximize even though they may be externally constrained from doing so, and capitalistic finance is not seen as inherently speculative (Greenwald and Stiglitz 1993).

Functionalists, state-centered theorists, pluralists and their economist counterparts all have a relatively optimistic view of government's potential and a more mixed view of its actual practice. In theory, these writers believe that government can be a powerful force for good in society. In actual practice, government still tends to come out on the side of social well-being, although its success in meeting this goal may be stymied by unintentional error, unexpected turns of events, overriding political considerations, or the nature and power of economic interests. These theories do admit of ultimate state and societal breakdowns but they do not dwell on them, seeing them as more of an exception than a rule. That is not to say that conflict does not occur but that it generally is resolvable.

The State as Bad, Potentially and Actually

There are a wide variety of writers who believe that anything more than a minimalist state will lead to trouble, even if the people who run the state are competent and public-spirited. More ominously however, these same writers believe that bureaucrats will generally possess neither quality. These writers believe the state to have nothing but bad potential and even worse practices.

James Buchanan and Gordon Tullock (1962) represent the most cynical view of state power. Their philosophy, often referred to as Leviathan after Thomas Hobbes' work of the same name, and also building on the assumptions of public choice economics, claims that the state comes into existence to force the cooperative outcome in the Prisoner's Dilemma.

The Prisoner's Dilemma presents the quandary that if all individuals act completely out of limited self-interest, they will be worse off than if they all acted for the common good. The reason people do not act on behalf of the common good is largely because they do not trust each other, for if one set of people acts in the common interest, and another set of people take advantage of this fact, the socially beneficent people will end up much worse off. Thus the state exists to enforce this "trust".

For more primitive communities, this outcome may not be so bad relative to the alternatives; indeed, Hobbes himself saw the power of the absolute monarch as a necessary evil. As a community gets larger and more heterogenous, however, state

power becomes more problematic. Cooperation becomes more difficult, and the state steps in more often to provide collective goods. A vicious circle then begins. The provision of increasing numbers of public goods by the state lessens the need of individuals to act cooperatively in any given situation. This fact, in turn, increases instances of free-riding, further corroding desires for cooperative action between members of the community, and leading to more coercive measures and greater involvement in areas of private activity by the state.

The mere fact of state provision of private goods might not be a bad thing if government bureaucrats were as good as private actors in discerning collective tastes and delivering goods efficiently. However, bureaucrats are themselves self-interested, seeking to expand their political fiefdoms. Eventually, resource constraints are reached but venal politicians are undeterred by market forces and continue to grab what they can. Only fiscal crisis and massive waste provide a check to the growth of government (Niskanen, 1971).

For Leviathan theorists, countercyclical fiscal policy is merely another guise to run deficits which shift money from the private to the public sector. Instead, the overriding objective of economic policy should be to constrain the expansion of the state. For this reason, a balanced budget amendment is a recommended policy by many public choice economists (Niskanen 1973; Buchanan and Wagner 1979).

Other economic schools of thought come to similar conclusions about the desirability of anything other than minimalist state action, but generally arrive at their conclusions for different reasons. The general quandary these theorists grapple with is the "planning problem" which is the notion that running an economy requires so much information and predictive ability that centralized planning is bound to fail. Thus, the decentralized decisions of the private market place are always to be preferred. The Austrian school of economics, led by Friedrich von Hayek, typifies this view (von Hayek 1944). Von Hayek also holds views similar to the Leviathan advocates, believing that governments are given to tyranny as well as incompetence, and for this reason alone should be checked by strong private property rights and institutions.

Rational expectationists and New Classicists are another school which focus on the information problem in a different way. In this case, in the long-run, government ultimately has exactly the same data that private actors have, save one - the state knows what it is going to do in the future, while others can only speculate about what that action might be. Moreover, New Classicists in particular argue that private markets always clear and that business cycles and "involuntary" unemployment are consistent with that clearing (Lucas and Sargent 1978).

What implications do these assumptions have for

government economic policy? Essentially, fiscal policy can work in the short-run, but in the long-run it becomes not only ineffective but harmful. In the short-run, government can "fool" private actors into thinking they have greater purchasing power by raising the money supply or by undertaking some other economic stimulus. Assuming resources are fully employed, this stimulus will only raise inflation but there are lags in the information producers and consumers receive about prices: private agents see output prices rise and assume that relative price increases are occurring rather than general price increases. They assume that they have more real purchasing power and temporarily increase real activity in response.

Of course, time soon shows these private actors that they are suffering from "money illusion": they realize that the extra nominal dollars in their pockets are actually worth no more than the smaller nominal amount they had before. Real activity falls back down in response. Moreover, producers and consumers have learned a valuable lesson, namely that the government is out to trick them. Government can play this game once effectively, but it must increase economic stimulus ever more to receive the same impact in the future; ultimately, people become insensitive to random fiscal and monetary shocks, real or government induced, and the economy becomes embedded with inflationary expectations and behavior (Sargent and Wallace 1975).

In a dynamic setting, the problem of policy inefficacy becomes even worse. In this case, both government policymakers and the public are thinking ahead and taking future conditions into account when making current plans of action. The problem is that the public is aware of the various policy scenarios and adjusts its behavior accordingly.

The government knows that the public is adjusting its behavior and takes that into account in designing its policies. This feedback loop ensures that policies which are both consistent over time and credible in the sense that the public believes that government will stick with them, are very difficult to implement. In either the static or the dynamic case, the implication seems to be that the government should abandon discretionary fiscal and monetary policy altogether (Leonard and Long, 1992; Romer, 1993).

Monetarists are also concerned with the implications of information for economic policy and in a similar way. Like Rational Expectationists and New Classicals, they argue that discretionary government monetary policy usually only creates instability since economic performance is determined by long-range structural factors (e.g. demographics) which the government can at best alter only incrementally and indirectly. They argue instead that government policy should explicitly fade into the background, in the case of monetary policy adopting a constant-rate-of-growth rule for annual money supply increases (Friedman 1968). Interestingly, while

the basis for this policy recommendation is rooted in similar assumptions about private response to government-induced changes in prices, rational expectationists and new classicists reject such a rule, arguing that government should get out of the macroeconomic policy game altogether (Sargent and Wallace 1975).

These pessimistic views of the state can be classified as being on the right wing of the political spectrum. A symmetric view of the state is found on the left, in classical Marxism and neo-Marxism. The extreme Marxist (one might even say "strawman" Marxist) sees history as series of dialectics, or conflicts, which are driven by underlying economic changes, known in this parlance as changes in the "substructure."

This substructure generates the superstructure which consists of cultural, political and social institutions, including the state. The substructure also generates different and competing classes who act, often unknowingly, as their economic function demands. The apotheosis of the whole process is a classless, socialist and stateless society. At best, for the classical Marxist, the state is unnecessary and more typically, the state is used as an instrument by a ruling class to control various underclasses (Marx and Engels 1948).

Few Marxists are actually so rigid in their thinking and classical Marxism has been superseded by neo-Marxism which allows for more interaction between the superstructure and substructure. Nonetheless, this cynical view of the state is

present in most neo-Marxist writings, particularly in James O'Connor's writings which speak directly about American expenditure and tax policy (1972).

O'Connor maintains that the state exists to aid the monopoly capital class by keeping labor peace and providing social investment which aids capital accumulation. Although the state conducts social investment, the surplus generated by that investment accrues to private interests representing capital, not the state. This redistribution of resources from the public to the state and then to capitalists, leads to fiscal crisis where expenditures outrace revenues. At the same time, private groups other than capitalists which are disenfranchised from this process and see it as acting counter to their interests seek and often gain political power. In the end, economic power may be held by one class of people and political power may be held by a different class of people. Fiscal crisis becomes the norm and political conflict its outgrowth.

The Agnostics: The State as Good or Bad, Potentially and Actually

As might be expected, most thought falls somewhere in the middle of the two extremes, and even the extremes themselves are heavily caveated. Many of the models reviewed thus far have an element of determinism about them, such as the Marxist and Leviathan schools, which see an active state as necessarily being bad, whatever the intentions of its

managers. But most other schools of thought, such as pluralism, are often less certain as to the state's actual practices than their original proponents were. These theories see the state as potentially good or bad, and do not stake out a sure position as to whether a government will end up being a positive social force, a disequilibrating factor, or a mechanism for muddling through.

Max Weber's philosophy is the grandfather of a body of theory referred to as conflict theory. Unlike pluralists, conflict theorists reject the notion of a neutral state with accepted "rules of the game" where various interests are balanced and a coherent, democratic policy is hammered out. Instead, the state serves as a battleground where different groups fight for access and share power unequally. A policy at a given point in time indicates which interests have the upper hand, not any particular notion of social good (Weber 1947).

Closely related to this train of thought are two hypotheses about government known respectively as the capture theory and the social control thesis. Capture theorists argue that powerful interests have taken over and gutted regulatory and other oversight mechanisms which opposing interests have installed. Thus while a pure legal or institutional chronology might indicate that the big industrial monopolies were subject to increasing constraint by state in early twentieth-century America, in fact the constraints were

inoperative since the regulators were drawn from the industry they were supposed to be regulating and politicians with authority to enforce or write the laws were bought and paid for by these same industrial interests. The main lesson is that economic power tends to overwhelm and subvert the civil power of the state (Kolko 1962, 1965).

Formally almost identical to capture theory, social control theorists claim that state policy, at least with respect to social spending, is a means by which dominant elites suppress and mollify subordinate, and sometimes restive, lower classes. Thus social spending is kept just high enough to avoid civil unrest but not so high as to seriously strain the resources of the wealthy. Moreover, social spending comes saddled with all sorts of social engineering designed to encourage dependency and political quiescence on the part of its recipients (Piven and Cloward 1971).

Social control and capture theories differ mainly in the policies they focus on (social spending versus regulatory controls) and in the interests they see as dominant (the rich generally versus industrial interests in particular). Social control theory in particular sees the rich as always being dominant and thus sees the main goal of policy as being relatively unchanging. Dominant industrial and economic interests tends to shift over time, so capture theory allows for a bit more change and unpredictability in state aims and

policy. Both theories are cynical when viewing the exercise of government power. However, both theories implicitly allow for the potential of the state to be a force for social good if different groups controlled the political apparatus. In this sense, these theories are different from the thoroughly pessimistic views of Leviathan.

A more pluralist notion of economic policy is held by the economist Mancur Olson (1983). Olson argues that economic interests may be broad or narrow. If a society has well organized narrow constituencies, then their advocates will be more effective than others in getting their preferences carried out in economic policy. The resulting state actions will be economically inefficient, with narrow aims at the expense of the economy as a whole. Conversely, if broad-based economic groups dominate, they will favor, and succeed in getting, policies which encourage economic growth and efficiency. Government policy can be socially beneficial if the right types of interests predominate.

The theories mentioned so far focus on private interests in society as the main motivator of public policy. One thing these theories tend to leave sketchy is the institutional design of political institutions themselves. The military-industrial complex thesis advanced by Seymour Melman (1971) is an interesting bridge between social control and capture theory and more institutionalist theories alluded to earlier.

Melman concisely summarizes his argument in a series of

propositions:

PROPOSITION 1 The military-industrial firm is not autonomous.

PROPOSITION 2 The military-industrial firm is controlled by state management.

PROPOSITION 3 The military-industrial firm does not minimize cost.

PROPOSITION 4 The military-industrial firm is not a profit-maximizing entity.

PROPOSITION 5 The state management is a new concentration of industrial control.

.....
PROPOSITION 10 The military-industrial firms, as a group, lack flexibility for conversion to civilian work (Melman 1971, 7-8).

For Melman, the interests of state and private sector have become intermingled, symbiotic from the point of view of the government and the defense contractors which need each other, but parasitic from the point of view of the rest of society which feeds increasing amounts of resources to these two entities. In the long-run, this type of organization not only hurts the economy in general but undermines the military-industrial complex itself as the inertia of institutional prerogative overtakes even limited self-interest. The military-industrial complex has to be destroyed before it destroys itself and everything else with it.

Other thinkers believe that history generally creates a momentum of its own which drives policy. With respect to post-World War II America, both David Kennedy and David Calleo believe that America is suffering from the quandaries of overextended empire suffered by so many nations before it.

Kennedy (1987) thinks that the United States suffers from a combination of relative decline in the face of faster-growing competitors and a slowing of domestic growth due to aging institutions and ideas. Taking a broad historic sweep of the past thousand years, Kennedy picks out what he claims are patterns in past imperial declines which are being repeated in America. In particular, now that the nation is past its peak, its leaders are futilely seeking to regain past hegemony while ignoring pressing domestic problems.

Calleo takes a similar tack with respect to post 1960 America (1982). Calleo claims that American economic hegemony declined because of the post-War resurgence of economic competitors such as Japan and Germany. While Americans appreciated the benefits of having an empire, they increasingly chafed under its obligations. As a result, national policy turned towards dominance on the cheap.

As if in poetic justice, the attempt to maintain dominance without paying for it resulted in even faster decline than would have otherwise occurred. The attempt by American leaders to exploit the country's position as printer of the world's reserve currency led to world-wide inflation and a collapse of fixed exchange rates which made the dollar the reserve currency in the first place. The attempt by the U.S. to "go it alone" with its monetary and fiscal policies exacerbated the world debt crisis which occurred in the early 1980's and undermined many of the country's leading financial

institutions.

A somewhat different sort of historical inertia is seen in the writings of James Savage (1988). Savage claims that current fiscal policy is still played out in an intellectual framework dating back to the American Revolution. The debate between the Jeffersonian advocates of a decentralized state and the Hamiltonian advocates of a strong, activist, centralized state originated because of America's revolt against the British Empire, then perceived to be the objectification of the Leviathan and the inventor, under Pitt the Younger, of sinking-fund debt finance. Public debt was thus early on associated with centralized, corrupt state power and the debate about state policy was always made implicitly with reference to this historical antecedent.

All of these different philosophies identify causes of policy but leave open the possibility as to whether state action is potentially good or bad. In theory, if the causes were changed, the state actions would change, for better or for worse depending on which underlying factors were altered.

An Overview: Who is Right?

Is the exercise of state power always necessarily evil, good, or good or bad depending on the actions taken? Are state managers always venal and corrupt, always public spirited, or different depending on the managers and the circumstances? Common sense suggests the middle ground, although the particulars of any given situation are often

difficult to predict.

As with any theory, the ideas presented above can be tested in three main ways: by comparing their implications to the facts at hand; by considering the reasonableness of their premises; and by assessing the validity of the conclusions which are drawn from those premises. On this basis, all of the theories presented have their strengths and their weaknesses.

As far as evidence, the theories either explain too much or too little, a result perhaps unsurprising when considering the multiplicity of different policies one can find in different places and different points in time. Thus, the existence of a Stalinist Russia, Nazi Germany and corrupt, bankrupt India seems to prove the Leviathan theory but what of a Sweden in its heyday (One of Heclo's case studies) or a modern-day Korea or Japan with their corporatist states and rapid economic growth? These cases seem to validate state-centered, expert and industrial policy theories, to name a few. The historical evidence is mixed and tests of the Leviathan hypothesis on the level of local government largely fail to support the hypothesis, at least without some conditions (Musgrave 1979).

But state-centered theory meets the same objections. Heclo, for example, bases his case on selective evidence, comparing social policy in the U.S. and Sweden. Obviously, if the comparison had been between, say, Britain and Denmark, his

results might have been quite different.

Pluralist and functionalist models have been similarly criticized because they fail to adequately explain major social change except as a result of dysfunction. In particular, these models imply an uncritical and unexplained acceptance of the status quo, an acceptance which is often upset by events. Dahl's study of New Haven politics asked the question "Who governs?" and concluded that no one governs, that the power groups were completely evenly balanced. Shortly thereafter, New Haven exploded in riots and Dahl's theory seemed inconsistent with the facts (personal communication with Professor Robert Engler, former Professor of Political Science at the Graduate Center of the City University of New York). If the rules of the game are agreed upon and power so evenly balanced, why the need for riots? Clearly important groups were excluded from power, a contradiction of the basic premise underlying pluralism and functionalism. Olson's model has come under somewhat similar attack. There are as many counterexamples to the thesis as there are situations consistent with it (Asselain and Morrisson 1977).

One theory which protects itself too well from the evidence is the social control hypothesis. Social control theory focuses on the motivation of policy-makers in determining what it is that is attempting to be controlled. The problem is that motivation is inherently unobservable so the authors are left to speculate and this speculation ends up

being favorable to the theory. Thus when social welfare spending rises in the 1960's, policymakers are said to see the need to buy social peace whereas its stagnation and marginal reductions in the 1980's supposedly results from the need to coerce recipients and keep them down. All of this may be true, but since the contentions cannot really be disproved it is unsurprising that they have not settled the argument.

And the main problem with Melman's thesis are the facts. First of all, Vietnam War spending appears to have been small relative to the rest of the economy. The excess of military spending attributable to Vietnam has been estimated at only 2% of trend real GNP, deemed too small an amount to have much of an economic effect (Barro 1987, 323). Other economists have discounted the influence that military contractors have on economic growth or lack thereof, claiming that such a link is dubious (Leontief 1983). In any case, despite rising defense expenditures in the 1980's, overall purchases of defense goods and services by the federal government remained below the levels of the 1960's and not much above the low levels of the 1970's, never going above the peak of 9.1% of GNP spent in 1968 (U.S. Office of Management and Budget 1992). These percentages are significant but hardly overwhelming, casting doubt on the economic centrality that military-industrial advocates place on the institutions of military contractors.

To continue with this litany of evidentiary inadequacy, one may add the post- and neo-Keynesians. Minsky's theory,

for example, contains many counterhistorical contentions. For example, his thesis that financial instability is increasing is debatable. The "decline of empire" school meanwhile has, it seems, made the mistake of finding patterns without adequately explaining them or reconciling them with other patterns. For example, Kennedy has done a good job of cataloguing symptoms of decline, but are the declines of the British, Roman, and American Empires simply matters of overextension? The British, for example, had a very different kind of Empire than the Americans and similarly had a somewhat different reaction to decline. In particular, the British held on to the gold standard at great cost to themselves while the Americans, as Calleo points out, ultimately followed the path of least resistance. These very differences suggest that the explanatory part of Kennedy's thesis may need some work.

Calleo does a fairly good job of detailing America's resistance to decline, but his model of the world and domestic economy is very sketchy. Why, for example, was "real" adjustment necessary in response to monetary and political adjustment elsewhere? In a world of floating exchange rates, currency adjustment, up to a point, may be perfectly adequate to take other changes into account. And America did seem to be making some real adjustments that Calleo ignores, particularly in its falling military expenditures (relative to GNP) throughout the 1970's.

The main difficulty with many of these philosophies is

the way their proponents claim too much predictive power for them. In fact, it is well-nigh impossible to have a meaningful theory which explains all phenomena at all times. Readers are bound to be disappointed when confronted with supposedly general theories about phenomena that vary widely with specific circumstances.

Despite the difficulties of general-theory building, many authors still try to escape the evidence problem by reinterpreting their assumptions to make sure that the facts do not contradict the theory, whatever those facts may be. For example, Leviathan advocates often respond that those "good" activist states which exist will, in time, overreach their bounds and decline (Sweden after its heyday may be an example).

But this is having things both ways. Assuming that, over some unspecified time period, the facts will eventually fit the theory's predictions renders the theory itself unfalsifiable. Olson's theory can be similarly slippery if advocates respond to inconsistencies with the evidence by redefining terms such as "interest group," "broad" or "narrow."

Savage's thesis also seems to be consistent with all sorts of facts. The Jeffersonian-Hamiltonian debate rages throughout American history, he claims, and yet Jeffersonians often do very Hamiltonian things as when Jefferson made the Louisiana Purchase or when Reagan ran multi-billion dollar

deficits. Savage seems to take the rhetoric of leaders a bit too seriously since a given rhetoric is consistent with a number of opposite policies. Put another way, explaining the rhetoric and its meaning may not be enough to explain the policy and its constraints. This is the danger of basing the explanatory power of a theory solely on something so malleable and subject to reinterpretation as ideas.

This leads to a general point about the reasonableness of the assumptions behind many of these constructs. Milton Friedman's 1953 article on economic methodology notwithstanding many of the assumptions behind these theories seem overly simplistic. Common sense and experience suggests that bureaucrats do not at all times in all circumstances, in all cultures (even all Western cultures) act purely out of self-interest, yet this is what public choice theorists would have one believe as a "useful" abstraction. At the same time, it is useful to remember that public choice theory arose partly as a response to the equally implausible assumption that state bureaucrats basically act in the public interest. Leviathans do occur frequently and state-centered and other theories have effectively ruled them out in their basic premises.

Unreasonableness in assumptions also occurs when the implications being drawn from the premises cannot be sustained by those premises without additional implicit or very specific conditions. For example, Olson's premises are not strong

enough to sustain the general predictions he makes. To take a case in point, a large single-industry labor union, a narrow interest group by Olson's definition, could increase economic efficiency by maintaining labor peace. Thus a society embedded with the right types of narrow interests could conceivably be more productive than a society without any such groups (Bowles and Eatwell 1983). The same could be said of Olson's modelling of institutions, which is minimal even though these institutions are often central to the way in which groups influence policy (Bowles and Eatwell 1983). Thus, additional assumptions about group characteristics and decision-making structures have to be made to reach Olson's conclusions and many of these are made at best only implicitly in his and his followers' formulations.

Much public choice theory meets the same objections. Thus Anthony Downs and Gordon Tullock can agree that majority rule will lead to logrolling but while Tullock believes that this constant deal-making will lead to ever more state-provided goods, Downs believes that an overserving of special interests will be outweighed by an underserving of the general interest which is more subject to free-riding (Mueller 1983, 148-9).

Much of this problem arises for similar reasons stated above: the assumptions require more specificity. Besides a lack of institutional detail, public choice models generally leave unanswered the question of exactly which agents are

maximizing what. Do politicians seek to maximize their chance of getting reelected, their overall imprint on policy, their place in history, their personal perks and power or something else entirely? Are voters more concerned with their personal income, their current job-security, or prospects for economic growth? Are agents myopic, far-sighted or some of both depending on the issue? And which agents are the most influential and why? Different theorists have worked with different assumptions about these parameters but the question of which combination of assumptions is the most useful cannot be resolved by theory alone.

Savage, too, is never clear on the motivations of leaders; do they want power, reelection, a place in history, achievement of ideals? Are leaders creators of ideas or the other way around? Savage focuses on the dynamics of politicians and their institutions and yet never is really clear on their objectives.

O'Connor's model poses the question: "Why does the state exist?". However, his answer to the question is itself an assumption. He assumes that the state is an instrument of monopoly capital and largely assumes that monopoly capital is the leading economic sector. Besides the fact that this premise contradicts the idea that other interest groups can somehow arrogate public power for themselves, O'Connor does not seek to substantiate this premise.

Of course, making assumptions more specific means that

one's theory will be contradicted more often by the facts; that is, it will be less of a general theory. Even meeting these hurdles - faithfully accounting for evidence and modifying and making explicit all the assumptions necessary to reach certain conclusions - is often not enough. Basic causal relationships often simply cannot be explained completely; and a theorist still has to specify standards of proof and respect the rules of logical inference.

Unfortunately, too many of these theorists seem to forget these admonitions. Olson, for example, assumes that interest groups are the cause of economic conditions, even though economic conditions often lead to the formation of interest groups as when manufacturers form protectionist alliances in response to a recession (Asselain and Morrison 1983). For Olson, the question of causality seems to be closed, but in fact, it is probably where the debate should begin.

Similarly, Heclo has demonstrated some correlations between policy-maker views and policy outcomes but a correlation does not prove a causal relationship. This point can be seen by imagining Heclo's model as a regression equation (which it explicitly is not). Heclo's equation would have independent variables representing the influence of political parties, interest groups, elections and administrators explaining a dependent variable, policy. All but the administrator variable are insignificant in their influence on policy, Heclo claims.

Suppose for a moment that this is an accurate interpretation of the evidence. Might the administrators variable be picking up some other influences? For example, perhaps administrators represent constituencies, as the pluralists claim. In that case, a link between policy and administrators may be demonstrating something quite different about the source and nature of policy.

The debate between the Keynesians and the New Classicists is long and unresolved and only a few main points will be outlined here. While monetarists have identified some dangers implicit in discretionary policy, their alternative has dangers of its own. In particular, monetarists look only at the possible benefits of rigid policy rules and not at their costs such as the damage wrought when a fixed rule meets an exogenous shock. Also monetarists have certain assumptions about the economy which justify constant-rate-of-growth rules. One example is their assumption of a natural rate of unemployment. While such a rate is logically plausible, it is usually unclear when the economy is at such a natural level and when, hence, government intervention can do no good. Like neoclassical theorists in general, monetarists look at the economy (absent government intrusion) and assume that the outcome is optimal by definition. The difference between truth and tautology here is debatable.

New Classicists and rational expectationists have problems of their own. The relaxation of the assumption of

perfect information with respect to output prices is quite clever, but as any good welfare economist asks, why stop there? Information about most everything is usually far from perfect and this imperfection can affect outcomes in diverse ways. For example, Benjamin Friedman has objected that Lucas and Sargent assume that agents misjudge output prices first and act accordingly, increasing real activity when temporarily mistaking a general price increase for a relative price increase. But if agents make the same mistake with respect to input prices, then a general price increase would temporarily lower real activity (Friedman 1978). If goods are not purely private and if markets are less than competitive then it is not necessarily obvious that Keynesian tradeoffs do not exist for government to exploit. New Classicists start the game of loosening the neoclassical model but stop playing without justifying their action.

It should be noted that the assumptions of New Classicism do not necessarily obviate the need for some kind of fiscal activism on the part of the government. The difference is that government policy, rather than exploiting a Phillips Curve tradeoff in the short-run (which, by definition under real business cycle theory, does not exist) sets tax policies which optimize the long-run rate of growth. This rate will change as economic parameters change or as real shocks occur, so optimal tax policy must change with it (Barro 1984).

In addition, fiscal policy may have to be adjusted for

equity concerns as well as efficiency. David Auerbach and Laurence Kotlikoff (1994) has noted that budget deficits effectively transfer wealth from one generation to another. This intergenerational aspect of deficits can cause severe burdens for future classes of people and by itself may suggest that fiscal adjustments are necessary.

The theories of Polanyi, Gronbjerg, Wilensky and Kuznets, meanwhile, all seem to be focusing on parts of the picture while claiming to be looking at the whole. Why do rights exist in the first place and why must they necessarily expand to include economic privileges? Which goods are positive goods and why and to what degree? Why don't the prerogatives of communalism outweigh and resist the prerogatives of the market rather than the other way around? What is the exact relationship between industrialization and its demands on the state? In general, each of these theories identifies industrialization as a cause of state policy without adequately explaining industrialization or the nature of the state. And each theory is Europe- or America-centered. Third world and communist nations have industrialized but have pursued quite different state policies. There is considerable policy diversity even within the first world. These very facts suggest that the logic of growth is varied and inadequately captured by the various theoretical constructs.

A Contrast to Traditional Economic Policy Modelling

Describing theories of the state is one thing. Modelling

the policymaking process is another. Because this is a dissertation on the making of economic policy, it is useful to examine the "traditional" economic approach to political economy.

Preferences of decisionmakers are the starting point of most economists' analysis, and the assumption is that policymakers are maximizing some objective function, usually a reelection goal, and an optimal inflation/unemployment goal consistent with reelection. Voter preferences, when they are considered explicitly, are part of the constraint bounding the decisionmaker's objective function.

The problem then becomes to specify what policymaker preferences actually are, specify the constraints or tradeoffs, and solve the constrained optimization problem. Studies of the policymaking process which focus on what policymakers should be doing (that is, normative studies) usually examine economic variables only, while positive studies of what policymakers actually do usually include political variables as well. For both approaches as well an econometric model of the economy is used. That this model may be inaccurate is not necessarily a problem so long as it is the model which policymakers themselves used (Swank 1990, 9-11).

The simplest models are linear in parameters, static and deterministic. In such a case, one maximizes an objective function. By contrast, one may use a nonlinear, stochastic

and dynamic framework. In such a case, one minimizes a loss function. Using the certainty equivalence theorem, one can turn this stochastic optimization problem into a deterministic one (Swank 1990, 2-3). One problem which arises is in determining policymaker preferences. For one thing, policymakers may want to hide their preferences from the public (e.g. if putting a low priority on unemployment). For another thing, quantifying or identifying these preferences may be difficult, particularly if many different actors are involved in making decisions (Swank 1990, 4-5).

To solve such problems, one may simply assume a set of preferences. Interviews may also be used, but analysts have shown this to be almost impossible to use (Van der Geest 1977). By contrast, Ann Friedlander (1973) assumes governments minimized a quadratic loss function, subject to the constraints of the economy where the economy is estimated by using an econometric equation system. Assuming this system accurately reflects the economy and that policymakers look ahead only one period, one may estimate the loss functions over some past period (which assumes that policymakers, at least prospectively, saw their decisions as optimal) and derive reaction functions which show how instrument variables react to policy variables. The reaction coefficients are combinations of the econometric parameters and the weights in the loss function. From the reaction functions, one can derive policymaker preferences. This model works only in

static frameworks and under restrictive assumptions regarding the number of target and policy variables.

More generally, two routes for estimating preferences are usually used. One may assume some specific objectives, put them in the functional form, and then optimize subject to the economic constraints which policymakers actually faced. Then one may run a set of alternative assumptions until one gets the best fit to the available data. Alternatively, one could include these objectives in the objective function and estimate the weights that policymakers use to assess the objectives. The estimation problem is to choose the preference structure such that the actions of policymakers according to the model closest approximate their actual actions (Swank 1990, 13).

Two different assumptions regarding policymaker objectives are most often seen in the fiscal and monetary policy literature. Political Business Cycles (PBC), assume that governments seek to maximize votes and popularity in order to stay in power. The Nordhaus version of this model assumes that there is a Phillips Curve tradeoff which can be exploited by policymakers, and that popularity is negatively affected by unemployment and inflation (Nordhaus 1975). PBC models predict that unemployment is high early in the term to suppress inflation in the long-run and are reduced as elections near.

Partisan theory is a more general version of PBC theory,

except that it assumes leaders have objectives other than (or in addition to) getting reelected. An administration may have its own objectives and/or may represent the interests of its supporters. Right wing administrations are supposed to assign higher priority to reducing unemployment and suppressing inflation, while left-wing administrations assign higher priority to reducing unemployment.

Hibbs (1971, 1977, 1982, 1986) is an example of a partisan theorist. His model of the administration objective function contains two arguments, unemployment and inflation, and picks points off a Phillips Curve. Alesina (1987, 1989) has developed a rational partisan theory which uses a Lucas supply function rather than a Phillips curve. Since different parties produce different shocks, economic policy can affect real variables just before an election since voters cannot anticipate who will win for sure and hence what types of shocks will prevail. After an election, economic policy regains its usual inefficacy. This model thus predicts changes in unemployment just after elections, rather than persisting throughout the administration's reign, as Hibbs posits (Swank 1990, 63-64).

A hybrid of the two approaches is found in Frey and Schneider (1978, 1982), who assume that governments pursue ideological goals subject to a reelection constraint. They assume that governments read opinion polls. If, according to the polls, the popularity of an administration is below a

certain critical level, an administration will only aim at increasing popularity. If popularity is above a critical value, an administration will promote ideological goals. Thus they use a lexicographic ordering which implies decisionmakers do not try to achieve objectives they assign lower priority to until they achieve certain level of objectives they assign higher priority to. Ideological objectives are represented in the model by the shares of government spending and transfers in national income, which differs from other partisan theories in that ideology there is expressed by the weights attached to unemployment and inflation.

The Frey/Schnieder model uses a reaction function and predicts that if popularity is below a critical level, governments of all stripes will follow expansionary policy. If not, then right-wing governments will seek to reduce expenditures, left-wing governments will seek to expand them. This further implies that left-wing governments are always expansionary.

There are a number of standard critiques of these models. First, there is little empirical support for the notion that voters reward good economic performance and punish bad performance, or their assumption that voters are myopic. However, this may not be important if policymakers believe their popularity is tied to economic performance. Moreover, while voters may not punish or reward economic performance per

se, their actual well-being, or perception of well-being (as determined by income levels, for example), may be affected by this performance in a regular way. This change in circumstance certainly has an effect on the way people vote, and to the extent circumstance is indirectly affected by macroeconomic performance, politicians will be concerned with it. The other general criticism of PBC comes from New Classicism, namely that there is no Philips curve tradeoff, and that even if there were, policymakers cannot manipulate it at will (Swank 1990, 61-62).

Partisan theories do have some empirical support. However, the New Classical critiques apply to these models as well as the PBC models. Moreover, as constituted, these models assume that governments are not concerned with reelection (Swank 1990, 64-65).

The Frey/Schnieder model does take reelection desires into account. However, they still can be critiqued for resting on the unsupported notion that voters reward and punish economic behavior, although if policymakers perceive otherwise, this may not be a problem. Second, left-wing governments do not always follow expansionary policies and, in any case, if voters prefer expansion it is not clear why they would prefer anything but a left-wing government under the Frey/Schnieder model. Finally, the use of reaction functions can be critiqued on the grounds that they do not truly account for or explain the way in which decisionmakers arrive at their

decisions, as well as ignore institutional constraints and context. (Swank 1990, 67-69).

Finally, one must not only account for government behavior but voter behavior as well. Downs argued that voters vote for the party which offers them the highest expected benefits. With respect to economic variables, Kirchgassner has argued that, consistent with Downs, economic variables are important to voters only if (1) they affect the individual's economic conditions; (2) that voters should have some information about these variables; and (3) that voters must hold government responsible for these variables in some way. He argues that unemployment and inflation fulfill these conditions, but Schram argues that he is unconvincing. For example, unemployment affects some, but many others are unaffected. However, as with macroeconomic conditions generally, the indirect and perceived effects of unemployment may be just as important as the measured direct effects. For example, even if a person retains their job throughout the trough of a recession, if a family member loses a job, or if the person is in a business, such as the restaurant business, which is adversely impacted by the rising unemployment of the business clientele, these indirect effects clearly have an impact on the voter's well-being. Moreover, even if a person is not directly or indirectly touched by rising unemployment, that person will probably experience increasing insecurity and pessimism about the future. As any politician knows,

perception can be just as important as reality.

Finally, there remains the basic question of what factors cause a government to be supported or rejected by voters. The standard method of modelling this problem is to assume voting represents a rational choice between alternatives, with voters seeking to maximize utility. Election results can be analyzed, but elections in some countries are not often held. Dummy variables to account for important events are also used.

Conclusion: What does all this mean?

One lesson of this literature review is that building general theories to explain how policy gets made is an impossible undertaking. One should be modest about what one's theory explains and one should pick and conduct case studies to test those theories very carefully.

Another lesson is that many factors affect policy outcomes and all of them are relevant at different times. Moreover, institutions, rules of conduct and engagement, cultures, opinions and the like are inherently dynamic. This may imply that certain theories are more appropriate for certain times than others.

This thesis will take a different approach to examining fiscal policy formation. First, induction rather than deduction will be used. A set of facts will be described and analyzed, and those descriptions and analyses have been used as a basis for explaining events.

Second, this work will not purport to be a general theory

of fiscal policy. Instead, two points in the history of American macroeconomic stabilization regimes have been identified as important, will be compared and will have hopefully be at least partly explained. Though some inferences about the past and future can be made on the basis of this exercise, there will be no claim to have constructed a theory which is applicable to other countries, other time periods, or other policy settings, though some useful analogies do exist which can be extended to other settings.

Third, the focus is on Congress. Almost out of necessity, PBC and other theories have tended to intensively examine either the President or, in the case of monetary policy, the Federal Reserve Bank. This focus flows from the methodology of specifying a single objective function for a decisionmaker. The President is a single individual and arguably puts his personal imprint on the Executive branch generally, allowing it to be more readily characterized as a single decision-point. Congress, being a collective body, cannot be so easily characterized.

The contrasts and lessons should be clear. The deductive general theory approach has the advantage of being tractable, and perhaps of disciplining one's logic. But fiscal policy, or any economic policy, cannot be generalized about for the most part. Even if one operates within a constrained optimization framework, one has to ask what the nature of the constraints are, what the context for action is, what

precedents have been set which will guide decisionmakers in the future. The description of these factors is an empirical matter - their precise nature cannot be deduced logically. And this descriptive historical process is critical, even if one has a deductive model of which one is confident, for the constraints and context often determine the policy outcome in a given setting, or at least favor some outcomes much more heavily than the others.

On the other hand, there is considerable merit to the concept of a fiscal constitution proposed by Buchanan and Wagner, that is, an uncoded set of rules and patterns of behavior governing the course of American fiscal life whose patterns of change are normally quite slow and only occasionally move in new directions. Buchanan and Wagner's approach well fits the facts of an American political culture and jurisprudence which is based on a written constitution, and an innately conservative one at that. Written constitutions are usually slow to change, and broad changes either occur violently or incrementally over time and this is the pattern in much of America's postwar tax and expenditure policy.

However, none of Buchanan and Wagner's ideological trappings are knowingly or intentionally utilized. The message from both the Leviathan and the other grand approaches utilized here is that teleology can get one into trouble, particularly if not all the facts are marshalled to back one's

case up. Teleologies may very well exist, but the grander the teleology, the grander the empirical task.

Thus, the purpose of this work is to examine some significant and complex events in taxation, expenditure, and budgetary rules in the years since World War II. The theories of political action just discussed will serve as a tool kit for analysis of these complicated events. The Kennedy Tax Cut and Gramm-Rudman Act will be picked out as significant acts in that they marked a shift in the fiscal constitution of the United States. Some of the reasons for the shifts in the fiscal constitution will be examined and the implications for the future will be speculated upon as well.

CHAPTER 2: OUTLINES OF A POSTWAR AMERICAN FISCAL CONSTITUTION

American political history has as its centerpiece a magnificent awe for the Constitution of the United States. Lawrence Friedman's A History of American Law refers to the federal Constitution as "marvelously supple, put together with great political skill....It turned out to be neither too tight nor too loose. It was in essence a frame, a skeleton, an outline of the form of government; on specifics, it mostly held its tongue (Friedman 1985, 117)."

Given this preoccupation with, and respect for, the American Constitution, it is perhaps no surprise that Buchanan and Wagner developed the notion of fiscal constitution, and saw it in much the same manner that Lawrence Friedman and other scholars have characterized the nation's legal Constitution. For Buchanan and Wagner, the fiscal constitution is a background against which decisions about public command over, and disposition of, private resources are measured and judged. Like the counterpart that the Founding Fathers designed, this document is silent on many specific issues and is in many respects unwritten and living, changing with the times and the interpretations that those times bring.

This document does not specify how big the State should be, nor specifically direct the State to collect public resources in a particular way, nor spend them on predetermined purposes. It does, however, link spending to taxation by broadly directing that the public sector should not spend more

than it has on hand, or can easily obtain with the consent of the people in the form of direct taxation (to be distinguished from indirect and more pernicious forms of taxation such as inflation).

In Buchanan and Wagner's view, these broad rules have had the effect of limiting both the size of the State and the scope of its activities. In particular, fiscal activism, in the sense of intentional deficits during slack times, was a constitutionally prohibited activity.

The history of postwar American fiscal policy can be described in these terms of notional provisions of a notional American fiscal constitution. These provisions can be said to consist of major pieces of tax legislation during the period; of major spending legislation and components during the period; and of written and unwritten rules regarding the management of funds coming into, and going out of, the public treasury.

Since this dissertation specifically focuses on the fiscal stabilization role of the State, the examination of spending, taxing and budgetary legislation can be limited to those actions whose major intent and effect was manipulation of the business cycle. This examination will show that out of the many postwar policy changes dealing with the State's fiscal role, the Kennedy Tax Cut was a singularly important ratification of fiscal activism, while the Gramm-Rudman Act was a singularly important rejection of that same role. While

other actions which followed both acts changed the scope of these commitments, either in their breach or their reaffirmation, these two acts, it will be argued, were the precedents which allowed these modifications to follow and were more significant because of it.

Taxes

The period since the end of World War II has been an exceptionally active one in terms of tax legislation. Since 1945, there have been more than 215 public laws passed which have affected taxes (Talley 1990, 8-27; updated by author).

Not all of these acts are equal of course. Many of them are minor bills which are technical in nature or which deal with very narrow provisions of the law such as specific excise or corporate taxes. In addition, not all tax acts have had an explicitly countercyclical component, or were intended to smooth out the business cycle. Many, and perhaps most, tax bills have been justified on microeconomic grounds, such as eliminating inefficient loopholes, or political rationales, such as rewarding specific groups of constituents, or, more often, some combination of the two. Relatively few tax acts are justified on the basis of their macroeconomic impact, although such impact has typically been a concern during the postwar period.

Table 2-1 lists the major postwar tax acts which were specifically designed in whole or in part, or wholly or partially justified on their ability to manage the business

cycle.

Table 2-1

POSTWAR TAX ACTS WITH SPECIFIC COUNTERCYCLICAL MANAGEMENT
JUSTIFICATIONS

<u>Name of Bill</u>	<u>Year Enacted</u>	<u>Revenue Impact\1</u>
Tax Adjustment Act of 1945	1945	Loss
Revenue Act of 1945	1945	Loss
Termination of Wartime Tax Provisions	1947	Loss
Revenue Act of 1948	1948	Loss
Revenue Act of 1964	1964	-\$11.5 billion
Revenue and Expenditure Control Act of 1968	1968	\$15.5 million
Revenue Act of 1971	1971	-\$17.4 million
Tax Reduction Act of 1975	1975	-\$22.8 million
Revenue Adjustment Act of 1975	1975	\$ 6.1 million
Tax Reduction and Simplification Act of 1977	1977	-\$34.2 million

1\ Revenue impacts are those predicted by Joint Committee on Taxation at time of enactment. In some cases, only estimates of the first year revenue impacts were available

Sources: Lewis, 1962; Stein, 1969; Talley, 1979a, 1979b, 1990, 1991; Witte, 1985;

Several points should be made about this table before analyzing it. First, a number of notable tax acts are missing, particularly in the 1980's where no tax acts are included, especially the Economic Recovery Tax Act of 1981 (ERTA) which was one of the largest tax cuts in American history and certainly one of the landmarks in tax policy in the United States. The Revenue Act of 1962, which contained the innovation of the investment tax credit (ITC) is also excluded.

The reason for these omissions is not because these acts were unimportant - they clearly were - or because they had no effect on the U.S. macroeconomy - they very likely did - but because they were not justified on the basis of their efficacy in smoothing out the business cycle. In the case of the two acts mentioned, economic incentives and long-term growth were the main justifications for passing the act. It was not claimed that either bill would lead to an end to recessions, or would smooth out a present business cycle, but that the incentives for saving, work and investment would be improved and that the efficiency of the economy would improve as a result. Other acts, such as the Tax Reform Act of 1986, are not listed because they are either revenue-neutral (as in the case of this act) and thus are by definition not demand-management bills, or because they are clearly microeconomic measures with a very specific purpose, such as the Windfall Profits Tax of 1980.

Second, tax acts are considerably more complicated than a simple classification such as this one may imply. Even the Kennedy tax cut included many corporate, individual and other tax provisions which were meant to accomplish a number of purposes other than macroeconomic stabilization, and even many of the stabilization provisions were designed to kill more than two economic birds with one stone.

Finally, the tax system includes "automatic stabilizers" which respond automatically to economic conditions to dampen whatever cyclical swing is predominating. By its very nature, progressive income taxes are automatically stabilizing since as income increases during an expansion or grows more slowly or decreases during a contraction, movement into higher tax brackets is increased or lessened accordingly and along with it so goes after-tax income. The changes in the structure of tax brackets has an important influence on these automatic stabilizers. In this sense, acts such as the Tax Reform Act of 1986 have significantly dampened the automatic countercyclical properties of the American tax system. However, these implications were rarely considered during the passage of any tax act and hence are not discussed here. In addition, the other important automatic stabilizer, namely the unemployment compensation system, has been through a number of adjustments and "fixes," none of which are considered here either. These omissions are justified on the basis that this dissertation is examining the rise and fall of discretionary

countercyclical policy, and not the automatic variety (Pechman 1987, 13-15).

With these preliminaries out of the way, an examination of the table reveals several things. With the exception of several adjustments to taxes shortly after the end of World War II, where fears of a renewed Depression coming with military demobilization led to moves to reduce tax rates and maintain demand, the Revenue Act of 1964 ushered in a round of countercyclical tax acts which ended with the election of Ronald Reagan as President. Prior to Kennedy's tax cut, management of the business cycle through the tax code was not a standard practice, but after passage of that act, such tax activism became increasingly common over the next fifteen years.

In addition, stimulative tax cuts rather than contractionary increases became the norm in stabilization tax policy. The biggest exception to this trend was Johnson's 1968 income tax surcharge, passed after much hesitation by the Administration, after much prodding by the Council of Economic Advisers and other economists, and in the face of rising inflation and deficits.

By the time, Nixon entered office, everyone was indeed a Keynesian of the stimulative tax sort. Nixon passed an expansionary tax cut in the face of stagflation and the imposition of wage-price controls, while the deep recession of 1974-75 spurred another round of tax cuts. In both cases,

Congress pushed for and passed considerably larger cuts than either President asked for (Sloan 1984; Witte 1985, 176-185). Carter continued the trend of stimulative tax cutting with his tax bill in 1977. "Fine-tuning" had arrived.

And then almost as quickly, it left. With the passage of Proposition 13 in California, the "Tax Revolt" had come to dominate American political discourse. Matters were not helped by the fact that stagflation seemed to discredit economic advice and left economists struggling to prescribe appropriate corrective action to the seemingly incompatible ailments of recession and inflation. The increasing incidence of Federal deficits seemed to indicate that Keynesian tax-cutting was irresponsible and ineffective.

But tax cutting to create incentives became en vogue. The end result as far as Federal revenues were concerned was the same, but the justifications and the nature of the cuts prescribed were different. The logic of Keynesian tax cuts prescribed that more money be put in the hands of spenders, and that generally implied progressive tax cuts for individuals, with much less emphasis on corporate provisions. The logic of incentive or supply-side tax cuts was that savers and those likely to work more needed tax cuts, and that implied the opposite pattern, namely regressive tax cuts, and a greater emphasis on corporate tax relief and capital gains. The passage of ERTA in 1981 would be the culmination of this shift from Keynesian demand management to Supply-side

incentives.

Spending

Since the Great Depression and the New Deal, unemployment has been a major concern. Before World War II, there were two types of programs attacking unemployment. One set of programs dealt with the problem of general unemployment, simply putting able-bodied people into jobs with the objective of keeping employment up and, with it, the general demand for goods and services. Roosevelt experimented with a number of these types of programs, and each program was not necessarily consistent with the others.

The first priority was basic relief, which Roosevelt attacked through the creation of the Federal Emergency Relief Authority (FERA) headed by the social worker Harry Hopkins. This agency used federal grants to States and localities to provide work to employable people and payments to unemployable people. Hopkins was also the inspiration behind the creation of the Civil Works Administration (CWA) which bypassed local authorities and used Federal dollars to provide work directly to the unemployed. The Works Progress Administration (WPA), and the Civilian Conservation Corps (CCC) had a similar function.

Complementary to these programs, but more directed towards structural and regional unemployment were programs such as the Tennessee Valley Authority (TVA). The TVA did provide jobs to the unemployed much as the CCC and WPA did,

but was more oriented towards development of an underdeveloped region of the country and the amelioration of rural poverty rather than "make-work" to alleviate unemployment generally (Leuchtenberg 1973, 365-66).

Roosevelt was generally known as being of the belief that direct employment of the unemployed by the government was only a stopgap measure and a very expensive one at that. Despite being a well-known element of the New Deal, direct spending to alleviate unemployment was never fully subscribed to and was only one of a number of diverse elements which Roosevelt used to attack the problem of economic depression and not altogether successfully (Stein 1969, 50-54; Hughes 1977, 174-189).

These biases continued after the end of World War II. There were, of course, many new spending programs encompassed by the Fair Deal, the New Frontier and the Great Society, but very few of these programs were directed towards the problem of general unemployment and very few were designed to counteract the business cycle explicitly. The typical response of expenditure programs planners to recession was to accelerate spending on public works, (or to decelerate spending during expansions) and even these suggestions did not usually get very far. Truman, for example, explicitly considered but rejected the idea of speeding up public works spending to ease the 1948 recession (though he did suggest streamlining the planning process in the future) and issued a

White House directive that instructed all agencies to proceed only with essential construction which met the strictest tests of economy in the face of Korean War inflation (Lewis 1962, 115-116, 134). Eisenhower, too, examined the macroeconomic consequences of various spending programs and recommended changes at various times in their rates of spending to affect the business cycle (Lewis 1962, 156-158). Under Kennedy, the Congress passed the Public Works Acceleration Act of 1962, but appropriated only a small sum of money for it (U.S. Congress, House Committee on the Budget 1978, 162).

The fact remains though that these proposals did not end up affecting the dimension and timing of Federal spending programs too much and that there were no spending programs designed directly to combat general unemployment in times of recession or overemployment in times of inflation.

There were, however, programs which Kennedy and Johnson in particular developed to address structural unemployment and regional underdevelopment. For example, in 1961 the Area Redevelopment Act was signed, as was the Housing Act, though both were provided with little funding, followed by the Manpower Development and Training Act of 1962 (U.S. Congress, House Committee on the Budget 1978, 161-162). Kennedy made a campaign issue out of the poverty of Appalachia, and his concerns would be posthumously addressed in the passage of the Appalachian Regional Development Act. Regional inequities were also to be tackled with the passage of the Public Works

and Economic Development Act of 1965 (Leuchtenberg 1973, 812). Johnson's Great Society spawned many other anti-poverty and structural unemployment programs (Ginzberg and Solow, eds., 1974; Gordon 1988; Levitan 1969; Marshall and Cucciti, eds., 1986).

In fact, programs directed primarily towards boosting employment during recessions (there were no counterparts for dampening it during expansions) really did not begin until 1970, when the Public Employment Program was instituted, as part of Congress' extension of the existing authorized annual amounts for Titles I through IV of the 1965 Economic Development Act. (In the course of this extension, Nixon vetoed a bill which would have extended the 1962 Public Works Acceleration Act. An attempt to override failed by 5 votes) (Congressional Quarterly 1977, 180). This program, and a successor program as Title VI of the Comprehensive Employment and Training Act of 1973 (CETA), provided subsidies to the public sector to create jobs when the national unemployment rate exceeded some floor (in the case of Title VI, 4 percent) (Roth 1980, 41-42).

The 1970's, and particularly the deep recession of 1974-75, was a spawning ground for other countercyclical spending programs as well. The Local Public Works Capital Development and Investment Act was passed over President Ford's veto on July 22, 1976 and became title I of the Public Works Employment Act of 1976. This act awarded over 2,000 grants

with a value of more than \$2 billion for State and local government public works projects designed to stimulate employment. President Carter renewed the program in 1977, though with some changes designed to correct abuses from the first program (Roth 1980, 51).

The other main countercyclical spending innovation of the 1970's was countercyclical revenue sharing. Title II of the Public Works Employment Act of 1976 created the Antirecession Fiscal Assistance Program which distributed \$1.25 billion in Federal funds to State and local governments where the unemployment rate exceeded 4.5 percent when the national rate was above 6.0 percent. The program was extended through the end of 1978, but then allowed to expire without a replacement (Roth 1970, 58-59).

These programs were largely Congressionally motivated in that most were either expanded or passed over the President's veto or objections. Nixon's veto of the extension of the 1962 Public Works Acceleration Act has already been mentioned. After failing to override that veto, Congress tried again in 1972 to broaden the definition of economic development districts so that assistance would be available to all areas of "substantial" unemployment, authorizing \$250 million annually in FY73 and FY74 for special public works impact program grants and \$550 million for other development grants in both years. The President vetoed this bill as well as another bill to amend Title VII of the Housing and Urban

Development Act of 1965 to authorize \$5 billion in grants to state and local governments for construction of basic public works and community facilities in communities, among others, which has substantial unemployment (Congressional Quarterly 1977, 181).

When Ford took office, he announced release of about \$1 billion of additional funding under the previously mentioned CETA to finance about 170,000 public service jobs with state and local governments during the coming winter. The President's October 8 economic message proposed in addition a new public service jobs program with funding to be released in stages if the unemployment rate climbed. Congress upped the ante on the President by authorizing a \$2.5 billion public service jobs program, extending unemployment compensation to another 12 million persons, speeding up existing federal public works projects, giving jobless workers an additional 13 weeks of unemployment benefits and appropriating \$4 billion in FY75 to fund these programs (Congressional Quarterly 1981, 65). One program which was enacted over Ford's veto was a measure to put \$3.7 billion in federal funds toward state and local governments for accelerated public works construction and for countercyclical payments to offset the burden that nationwide economic troubles placed on governmental budgets. \$3.95 billion was authorized, \$3.7 billion appropriated. \$2 billion went to State and local governments for public works construction, \$1.25 billion to countercyclical grants over 15

months, and \$700 million in additional funding for wastewater treatment plant construction. The money was targeted towards projects which could be started quickly and in those areas where unemployment was higher than average (Congressional Quarterly 1981, 137-140). Carter's first budget contained the increase in federally funded public service jobs, countercyclical revenue sharing for states and local governments and public works jobs mentioned above, but at lower levels than those ultimately funded by Congress (Congressional Quarterly 1985a, 233).

These programs were largely born in the 1970's and they died right after that decade concluded. Reagan eliminated the CETA program, tried to eliminate the Economic Development Administration of the Commerce Department and succeeded in sharply reducing its funding, and eliminated general revenue sharing with States and localities for any purpose, much less anti-recession assistance. There has been consideration of almost no piece of legislation specifically providing increased expenditures in times of recession, although the 1990 recession did cause the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991, which increased authorized spending levels of transportation, to be reinterpreted as one as probably had a good deal to do with President Bush's agreement to sign the bill (Congressional Quarterly 1991b, 137-138).

Budgeting

The document that brings revenues and expenditures together is the budget. The budget is in many ways the tangible embodiment of the fiscal constitution: it reveals the level of spending and taxing, shows the purposes to which they were devoted, and indicates the balance between the two. The rules which govern these fiscal instruments thus reveal much about the state of the fiscal constitution itself.

Early on in the Republic's history, the rules on spending and taxing were fairly undefined. All that the written Constitution required was that revenue bills originate in the House of Representatives. The manner in which the executive or legislative branches could organize their finances was left largely unaddressed (Schick 1984, 4-6).

Congressional practice in managing funds evolved gradually. Before 1860, the Senate Finance and the House Ways and Means Committees handled revenues, appropriations (the commitment of monies for a specific purpose) and authorizations (the granting of permission, or authority, to pursue a specific purpose, to be funded at a later date). Money from tariffs was the primary revenue source and more than met governmental spending needs. In the early 1800's, the House did create some additional expenditure committees to oversee programs, but the executive branch sought to evade Congressional spending directives through transfers of funds from one purpose to another without Congressional permission. In addition, expenditures frequently exceeded appropriations

(Ippolito 1981, 39-40).

In 1865, the House established the Appropriations Committee to exercise oversight of spending formerly under the Ways and Means Committee. This led to a clampdown on spending growth, but the trend did not last long. In 1877, the House Commerce Committee wrested away control of the rivers and harbors appropriation bill from the Appropriations Committee. In 1880, the Agriculture Committee gained similar authority over agriculture and forestry appropriations. In 1885, the House voted to remove 6 of the 12 remaining appropriations bills still controlled by the Appropriations Committee and distribute them among legislative committees. A similar process, over a somewhat longer period, took place in the Senate (Ippolito 1981, 40-43).

As centralized Congressional oversight powers over spending declined, actual spending grew. For example, in fiscal 1894, the Federal budget registered the first deficit since the Civil War and ten more deficits were recorded in the next 15 years (Ippolito 1981, 41).

The actual reasons for this spending imbalance were no doubt complex. Whatever the sources of spending imbalances, Congress reverted to earlier patterns of spending control, passing legislation in 1905 and 1906 that required executive agencies to apportion appropriations during the fiscal year to curb the practice of spending all appropriations before the fiscal year was over. In 1909 Congress authorized the

Treasury Secretary to recommend reductions in expenditures or increases in revenues if deficits were forecast. In 1920, the House restored exclusive spending powers to its Appropriations Committee. In 1922, the Senate returned all bills to the jurisdiction of its Appropriations Committee (Ippolito 1981, 43-45).

On the executive side, Presidential budgeting remained dominated by individual agency priorities for some time. Before the 1920s, spending requests from executive agencies, along with plans and revenues, were transmitted by the Secretary of the Treasury to Congress in a "book of estimates" (Ippolito 1981, 38). President Taft attempted to change this state of affairs by implementing a Presidential budget but was unsuccessful in his efforts. However, the increased strains and spending of World War I led to new pressures in toward a centralized executive budget. In 1921, the Budget and Accounting Act was signed into law, giving the President statutory responsibility for preparing and submitting a national budget to Congress (Ippolito 1981, 45-46).

Such were matters basically left until after World War II. Then modern budgeting came into full bloom, after a false start. The false start was the 1946 Legislative Reorganization Act which established a Joint Committee on the Legislative Budget which included the members of the House Ways and Means, Senate Finance, and House and Senate Appropriations Committees. These four committees were to meet

at the beginning of each session to prepare estimates of total receipts and expenditures for the fiscal year beginning on July 1. By February 15, the Committee's report, along with a concurrent resolution setting an overall spending limit, was to be submitted to the House and Senate for consideration. Spending could not exceed estimated receipts unless the resolution also specified a corresponding increase in the public debt, and decreases in the public debt were suggested if a budget surplus was estimated.

The Congress attempted to enact legislative budgets in 1947, 1948 and 1949. The process was marked by violations of spending ceilings and inaccurate estimates. No legislative budget was enacted in 1947; Congress breached its own budget in 1948, and then failed to enact a budget in 1949. The process was abandoned in 1950, when Congress experimented with an omnibus appropriations process, whereby all single appropriations bills were rolled together in one bill. Subcommittee chairmen felt threatened by the process however and abandoned it the next year (Ippolito 1981, 48-50).

As the postwar period progressed, appropriations became less detailed and more programmatic. One reason for this, ironically, was the passage of the 1921 measure centralizing the executive budget process. That act, by tightening the distinction between authorization and appropriation, led to more "authorized to be appropriated" language. Prior to the Act, Congressmen were fairly safe in assuming that if a law

were passed, it would be funded. This was now no longer so certain, so the new language was used more often (Schick 1984, 28-29).

The growth of activist government also led to increasing deference of Congressional to Executive authority and a new sense that some Federal responsibilities were ongoing, not temporary reactions to temporary needs. Authorization bills now became more general, "authorizing such funds as may be necessary." Taken together, these developments decoupled the once close and automatic relationship between authorization and appropriation (Schick 1984, 29-31).

This decoupling led to new games by Congressmen, the primary one being "backdoor spending" by legislative committees, either by establishing borrowing authority, contract authority (to enter into obligations before money is funded), or entitlements. Permanent appropriations - those not subject to annual review by Congress - were on the rise, though they were not a new occurrence, accounting for almost half of annual appropriations in 1880. However, these past cases generally had permanent appropriations for debt repayments rather than entitlements. It also must be noted that the Executive branch was more responsible for the rise of entitlements, particularly in meeting the Great Depression, than Congress was (Schick 1984, 30-38; Bennett and DiLorenzo 1982).

The rise of spending through the authorizing rather than

appropriations process led to pressures for two models for greater control over Federal spending. One model hearkened back to the failed legislative budgeting process of 1946 which itself looked back to the centralized authorizing-appropriating-funding power which was originally vested with the House Ways and Means and Senate Finance committees. This particular model emphasized an increase in legislative power to counterbalance executive branch budget-making power. The other model to control spending was an explicit requirement, whether through statute or constitutional amendment, for a balanced budget or ceiling on spending.

Both models were intertwined with one another. Real movement for change began with the unravelling of Johnson's budget as it faced spending pressures from the Vietnam War and Great Society, and macroeconomic pressures from excess employment and inflation. Johnson, not wanting to sacrifice any programs, finally proposed a temporary income tax surcharge. To get the proposal through the Ways and Means Committee, however, Johnson had to accept a ceiling on spending. The vehicle for this ceiling was an amendment to a continuing resolution which the government needed to continue operating, formally known as House Joint Resolution 888, PL 90-218.

This spending limit was the first of its sort successfully passed by Congress. It was also fairly complicated and ineffectual. Among its provisions, the

measure extended from 12/2/67 to 12/20/67 the expiration date for temporary spending authority for federal agencies not yet covered by passage of fiscal 1968 appropriations bills; stated that federal obligations and expenditures for controllable programs in FY68 should be reduced by at least \$9 billion and \$4 billion respectively; and limited the funds available for FY68 obligation by each agency to the lesser of either (1) the amount available from appropriations bills which had become law or (2) an amount determined by reducing budgeted fiscal 1968 obligational authority for each agency by two percent of the Budget estimates for salaries and other personnel costs, plus 10 percent of the Budget estimates for controllable programs other than salaries. More tellingly, there were many specific exemptions from the percentage reduction formula, namely permanent appropriations such as interest; trust funds; "relatively uncontrollable" obligations such as veterans pensions, welfare payments, farm price supports, postal service costs and health insurance payments; and up to \$100 million in obligations for programs which the President decided were "vital to the national interest or security." Vietnam War costs were exempted from the Department of Defense reductions and other Defense obligations were not to be reduced by more than 10 percent of the obligational authority requested in FY68 with the additional proviso that allowed the President to exempt programs which he deemed "vital to the national interest or security." The measure, as mentioned

above, succeeded in getting Johnson's surcharge proposal passed by the Ways and Means Committee. What it did not end up doing was cutting down spending which ended up being \$2 billion higher than estimated at the time of passage, mainly because the measure limited authority, not outlays (Congressional Quarterly 1969, 136-138).

An explicit mandatory ceiling on overall spending, even one as complex as this, was not unprecedented, though of fairly recent origin. In 1935, Senator Millard Tydings introduced the first measure designed to require a balanced Federal budget. The measure would have prohibited appropriations in excess of revenues in the absence of new debt authorizations, and would have required that any new debt be liquidated over a fifteen year period. This unsuccessful resolution was followed by a similarly unsuccessful proposal by Representative Harold Knutson the following year for a constitutional amendment to balance the budget (Saturno 1989, 2). And the requirement to pass a legal debt limit to issue debt beyond the legal ceiling previously set, was an indirect control over the size of government spending, and one that would be increasingly used during the 1970's.

But in these past situations, Congress and/or the President would either end up reducing spending for specific programs, or would change their institutional mechanisms for making authorizing and appropriating decisions. The 1968 spending ceiling, ineffectual though it was, would set the

pattern that would ultimately result in Gramm-Rudman.

In mid-1968, Johnson obtained passage of his 10-percent income tax surcharge (HR 15414). However, Congress won a \$10-billion reduction in projected FY69 appropriations and a \$6 billion reduction in FY69 spending, \$8 billion in rescissions (i.e. cancellations) of unspent prior-year appropriations and a pledge of an approximately 245,000 man cutback in the number of civilian employees in the Executive branch (Congressional Quarterly 1969, 167). However, once again, Congress made many exemptions to these spending reductions and employment cuts - for Vietnam, interest on the public debt, veterans benefits payments and payments from Social Security trust funds (Congressional Quarterly 1969, 181-182).

Matters quickly grew more partisan and rancorous with the election of a Republican President - Richard Nixon - and a Democratic Congress. Nixon's first budget was quite restrictive, calling for the fourth largest surplus in the nation's history, amounting to \$5.8 billion. Congress ultimately accepted a budget that ran a surplus and approved a \$191.9 billion spending ceiling for FY 1970, which was attached to a \$4.3 billion supplemental appropriations bill for FY69 (PL 91-47). However, this ceiling was adjustable by Congressional action and turned out to be insufficient to limit spending growth. FY71 saw a reprise of a spending limit attached to a supplemental appropriations bill, this time at

\$200.8 billion plus a \$4.5 billion allowance for uncontrollable expenditures. With a series of Congressional add-ons, actual spending ended up at \$211.4 billion for the year (Congressional Quarterly 1973, 64-65, 67).

As this explicit but ineffectual limiting of spending was occurring in the Congress, the executive branch budgeting process was being retooled. On October 17, 1967, a special Presidential commission released a report suggesting adoption of a unified budget. The report suggested that budget include 4 components including appropriations; receipts, expenditures and lending; means of financing; and federal securities and loans outstanding. Johnson ultimately adopted these recommendations (Congressional Quarterly 1969, 137-38). Shortly thereafter, Reorganization Plan number 2 was approved by Congress in 1970, establishing the Office of Management and Budget (OMB) to replace the Bureau of the Budget. The new office was to take a greater role in managing Federal programs and evaluating their cost-effectiveness. The reorganization was effectively Nixon's answer to the Programs-Planning-Budgeting System (PPBS) that was then popular and was also seen by some as an attempt to strengthen the questioning of Defense budget requests by the President (Congressional Quarterly 1973, 68-69).

This refinement of the executive budget process and the increasing pitch of the Presidential-Congressional battles over spending would culminate in a major change in

Congressional budgeting. In the face of a belligerent and well-organized Executive budgetary juggernaut, Congress fell back on defending its prerogative by enacting a budgetary process of its own.

The process began when Nixon shifted to an expansionary budget in FY72 and wage-price controls to dampen inflation. The deficit for that year ran higher than expected and Nixon went on the offensive against Congressional overspending (as he cast it) for FY73. Nixon raised his spending estimate to \$250 billion to which Congress promptly added on additional items, thus exceeding the target. On July 26, Nixon called on Congress to enact a \$250 billion spending ceiling. Put on the defensive, the House voted by a wide margin to grant the President's request for unrestricted authority to cut controllable programs in order to stay within the target. The Senate, however, would not agree to unrestricted authority and suggested guidelines be attached. The impasse was not broken, although Congress did establish a joint study committee to examine spending control problems (Ippolito 1981, 57-58).

In response, Nixon vetoed some appropriations bills and then impounded what ended up being 40 percent of the allotments for fiscal years 1973 through 1975. Thus Nixon ended up enforcing the spending ceiling simply by refusing to spend that which Congress had appropriated (Ippolito 1981, 58).

It was this affront to Congressional authority, combined

with Nixon's successful capture of the political high ground on spending, that led to passage of the Congressional Budget and Impoundment Control Act of 1974. It is significant that the term "impoundment" is in the title of the act, for that issue was of the greatest concern to Congress. It is universally agreed that, whatever else the Act did, or did not accomplish, it successfully limited and defined the power of the President to impound appropriations and rescind authorizations (Ippolito 1981; Schick 1980, 1984; Wildavsky 1984).

Besides defining when and how a President could conduct impoundments, the Act created, for the first time, a budgeting process for Congress which was overlain over the existing authorization-appropriations process. The Act required adoption of a Congressional budget resolution in the beginning of, and at the end of the year, before and after appropriations and authorizations were made. The budget was meant to set macro policy goals such as total revenues, outlays, surplus/deficit and public debt, and then allocate outlays and authority among a number of broad functional categories.

To ensure that these broad allocations would be met, a "reconciliation" process was introduced whereby appropriations, entitlements and revenues would be brought into line with the second budget resolution, and a point of order was introduced into the procedures used by the House and

Senate to debate and consider bills, which could be used against legislation that violated the budget totals. The Act also created a new Congressional Budget Office (CBO) to provide the Congress with information on spending and revenues as a counterweight to the OMB. But the main enforcement mechanism was information such as "crosswalks" (allocating budget authority according to committees), five-year projections of revenues and expenditures, cost estimates for legislation, and scorekeeping reports, which tracked how consistent individual spending and revenue bills were with overall budgetary targets.

The defining element in this process was the CBO policy-baseline which, unlike the 21 functions in the budget resolution, projected spending for a 5 year period for the more than 1000 categories in the Federal budget, assuming no change in policy. Reconciliation and all other Congressional budget decisions were calculated in terms of this baseline.

It is this budgetary process which has been worked with and modified since. Although one impetus for the Act was Congressional control over spending, and although original versions of the proposal were quite conservative in this regard, the final bill did relatively little to explicitly rein in spending outside of providing greater budgetary information to Congressional representatives, and in creating the reconciliation process. (the above discussion of the Congressional Budget Act is taken largely from Ippolito 1981,

170-173; Schick 1974, 41-50).

And, indeed, the new process proved to be disappointing to those who had hoped it would stunt the growth of Federal expenditures. For example, President Ford submitted the first budget under the new budget act (Nixon had signed the Act shortly before he resigned). Ford asked Congress to limit FY75 outlays to \$300 billion. Congress essentially ignored the proposal for all practical purposes as the deepening recession created increased pressures for spending. Similarly, Ford's FY 76 budget included tax cuts and spending curbs. Congress expanded the tax cuts, but did little to reduce spending. It was during this time that a number of the countercyclical spending programs mentioned above were passed over Ford's veto (Congressional Quarterly 1977, 65-67).

With continued deficit spending concurrent with the new Congressional budget process and with the election of a Democratic President concurrent with a sitting Democratic Congress, formal spending limits began to take on a new prominence. The first such statutory limit introduced since the Depression was introduced by Senator Harry F. Byrd, Jr., an Independent, (affiliated with the Democrats) from Virginia, in 1978. This measure, which ultimately became Section 7 of P.L. 95-435, simply stated that, "Beginning with fiscal year 1981, the total budget outlays of the Federal government shall not exceed its receipts." No enforcement mechanism was provided for and the amendment proved ineffectual (Saturno

1989, 5).

Many other budget limit proposals followed. A provision similar to Byrd's was passed as part of PL 96-5, a debt-limit increase bill (Saturno 1989, 6). A bill limiting direct spending and tax expenditures to 27.5 percent of GNP by FY83 was introduced in the 96th Congress by two Democratic members of the House Budget Committee (Ippolito 1981, 247).

Meanwhile, pressure was building to pass a balanced budget amendment to the Constitution. In 1979, the National Taxpayers Union (NTU) became active in a campaign among State legislatures to adopt petitions calling for a constitutional convention for consideration of a proposed amendment to limit the power of the Federal government to incur deficits. This movement, by Reagan's second term, had garnered approval by 32 of the 34 required States, though 2 subsequently rescinded their resolutions (Saturno 1989, 11).

With the election of Ronald Reagan as President and his association with multi-billion dollar deficits, spending limit measures gained even more momentum. Partly this was due to the fact that deficit spending had grown beyond anything that had gone before. Partly this was because a conservative Republican was the one running these deficits, making a coalition between traditional "sound money" conservatives and liberals seeking to embarrass a hostile President that much more viable. And partly, it appeared that the new Congressional budget process had failed to stem deficits in

any reasonable way. Indeed, it was the reconciliation process established by the 1974 Act that was used so skillfully by Reagan to pass his large tax cuts in the first place. Moreover, slipped budget deadlines and supplemental appropriations were becoming routine, suggesting to casual observers that the budget process was not working and that policy changes needed to be effected outside of it. While there was a large reduction of supplemental appropriations bills as a proportion of total spending as a result of the Act, it was clear that overall Congressional budgeting practice routinely violated or bent the letter of the law (U.S. Congressional Budgeting Office 1990, 10-12).

Thus, in 1982, the Senate passed a balanced budget amendment, but the House failed to do the same (Congressional Quarterly 1982, 391). Late in the 98th Congress, HR 6300, a bill to require the President to submit a balanced budget proposal or, alternatively, to explain the reasons why one would be inappropriate, was passed overwhelmingly by a vote of 411 to 11. Congress adjourned shortly thereafter, and the Senate never voted on the measure (Saturno 1989, 6).

Thus it was that Gramm-Rudman was passed into law in 1985. The Act is explained in much greater detail in Chapter 4. The significance of the measure was that it was the first binding balanced budget requirement, together with a well-specified enforcement mechanism, which was passed into law. As noted above, spending limits had been passed before, but no

consequences were specified if those limits were breached, and no specific targets setting the gap between revenues and expenditures, along with a date-certain target for a balanced budget, had ever been spelled out and codified.

Moreover, having established the legitimacy and viability of deficit limits, Gramm-Rudman set the pattern of future budget policy. Gramm-Rudman itself had to be modified two years later due to a court challenge and the inability of the Government to meet its original targets. But although the targets were relaxed, and the enforcement mechanism watered down, both concepts were retained, although in a modified form, in the successor to Gramm-Rudman, the Budget Enforcement Act of 1990 (Collender 1992 21-26; U.S. Congress, Senate Budget Committee 1991). President Clinton's 1993 budget act retained the essential structure of the Budget Enforcement Act. Ineffectual or not, budget limits seem here to stay and deficit reduction enshrined as an object of government policy at the expense of fiscal stabilization.

An Aside on Full Employment Goals

The Federal government's decisions regarding taxation, spending, and budgeting speak much about the acceptance and priority of fiscal stabilization as a requisite role of the State. However, during the postwar period, there were, in fact, two explicit statements of Federal support for management of the business cycle. One of these statements - the so-called Humphrey-Hawkins bill of 1978 - was, in fact, an

amendment to the Congressional Budget Act of 1974 (Keith 1986, 2-6).

The most significant statement of policy was made coincidentally with the passage of the failed Congressional legislative budget in 1946. The Employment Act of 1946 explicitly states that the Federal government "use all practicable means consistent with its needs and obligations...to foster...conditions under which there will be afforded useful employment opportunities, including self-employment for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power (quoted in Roth 1982, 1)."

The Act was significant in that it created two durable institutions which at times figured prominently in the making of fiscal policy - the Council of Economic Advisers, and the Joint Economic Committee of the U.S. Congress. However, the Republican Congress was not sympathetic to the Council, particularly Truman's chairman, the liberal and crusty Leon Keyserling, and nearly defunded the organization (Stein 1969, 293). Eisenhower rescued the Council from oblivion, but it would not be a truly influential body until Kennedy and arguably that was the peak of its influence.

The second major statement in support of seeking full employment and price stability was the Full Employment and Balanced Growth Act of 1978, also called the "Humphrey-Hawkins" bill after its chief sponsors, Congressman Augustus

F. Hawkins and Senator Hubert H. Humphrey. As finally passed, the bill committed the President to establish five year goals for reducing inflation and unemployment and boosting output. Inflation was to fall to 3 percent after 5 years and to zero percent within a decade and this goal was to be pursued in a way that would not impede low unemployment (Schick 1990, 66-67). The President was required to submit, in his Economic Report, actual numerical goals for employment and unemployment, production, real income, productivity and prices during the succeeding five years, and programs, policies and legislation that the President deemed necessary or desirable to achieve the annual goals specified (Roth 1982, 25-26).

In fact, despite the emphasis on balancing inflation and unemployment, the Carter administration emphasized fighting inflation. In so doing, Carter was accused by Representative Hawkins of violating the intent of the law. Carter's economic reports contained little in the way of concrete suggestions for attaining the various economic goals called for by the law, and Reagan explicitly ignored them altogether (Roth 1982, 29-31). Although never formally repealed, the Act quickly became moot.

Assessing the Significance of the Kennedy Tax Cut and Gramm-Rudman

If but one observation could be made about the path of budget, tax and expenditure policy after World War II, it is to remark on its incrementalism. Breaks in patterns and

direction of policy are not so common as subtle variations on past themes, and these acts proved no exception to this precedent.

The Kennedy Tax Cut and Gramm-Rudman Act were, in many ways, continuations of past patterns. Clearly there were precedents for tax cuts and some tax cuts prior to 1964 even had a countercyclical subtext. The immediate reductions, after cessation of hostilities, in the existing World War II tax structure, were at least partly motivated by concerns that demobilization would lead to a sudden collapse of the economy. And although Roosevelt had never tried to enact a stimulative tax cut, he was aware of the notion that Hoover's 1931 tax increase was a bad idea and similarly avoided raising taxes for the most part during the depths of the business cycle.

In addition, the enactment of the Kennedy tax cut ended up being quite similar to other such acts in the extent and nature of Congressional involvement. Basically, Congressional representatives sought to make the tax cut larger than the President had wanted, and sought to appease many particular constituencies in the process.

Similarly, the budget limits contained in Gramm-Rudman were not without precedent. The idea of a constitutional amendment to balance the budget or limit government growth was not a new one, and a number of attempts to enact such limits were made in the late 1970's and early 1980's, just prior to the passage of Gramm-Rudman.

In addition, Gramm-Rudman contained many features which were recognizable in past bills, particularly the abortive spending ceilings passed by Congress under Johnson and Nixon. A broad cap was set, and many specific exemptions were included to protect cherished programs. Many of these exemptions were even the same - critical defense operations, Veterans' programs, and Social Security.

Despite the continuities, the two pieces of legislation did represent significant innovations. Although the concept of countercyclical tax cuts was not unheard of, Kennedy was the first to put together a systematic program with fiscal stabilization as its central tenet. Moreover, the size of the cut was of historic dimensions - over \$11 billion in cuts. And, unlike the immediate reductions in postwar taxes, Kennedy's tax cut was guaranteed to run a deficit and was following on the heels of other deficits in the recent past. Indeed, it was the short-run deficit that was to be the tonic that would cure the economy's sluggishness.

One way of judging the effectiveness of the Kennedy tax cut in changing thinking is to look what came afterwards, namely a rather sustained round of active discretionary countercyclical policy for the next fifteen years, spanning both Democratic and Republican Presidents. Tax policy, and tax-cutting in particular, was the central instrument of fiscal activism between 1964 and Reagan's election in 1980. For this reason, the 1964 tax cut is rightfully referred to as

a watershed in American fiscal policy.

By the same token, Gramm-Rudman also represented something of a break with the past which set a pattern for the future. Besides being the first explicit set of binding budget targets to be passed by Congress and enforced by law, the main innovation which Gramm-Rudman offered was a method for enforcing its budget targets, namely sequestration. In theory at least, the reduction of the deficit had finally and explicitly become the leading goal of the American fisc, and its targets had become enforceable.

Like the Kennedy tax cut, Gramm-Rudman left a legacy which still survives. Every change in budgetary process since the Act has contained deficit targets, provisions for "revenue-neutral" budgeting (i.e. any measure that loses revenue or costs money must be offset by a measure or set of measures which makes up for the lost revenue or increased expenditure) which are backed up by points-of-order, and sequestration. Indeed, these features have proven so durable that the first Democrat, William Clinton, to be elected in twelve years proposed and passed a budget package in 1993 that carried over these features and tightened the spending caps.

Much has been made of Gramm-Rudman's inefficacy in reducing spending and its corresponding efficacy in encouraging budgetary game-playing. Deficits have indeed typically run well over the prescribed budget targets and enforcement of sequestration has often been lax (Yang 1989).

In this interpretation, one could argue that Gramm-Rudman was so ineffectual as to be merely symbolic rather than a true low-point in American fiscal policy. A better candidate for such a low point might be the 1981 ERTA which elevated incentive tax-cutting to a new prominence and created the deficits which would have seemed to permanently foul up American budgetary policy.

There are a number of reasons to reject this interpretation. One not too convincing but traditional argument is that Gramm-Rudman was indeed effectual because deficits would have been higher than they would otherwise have been. This is, of course, an argument which is impossible to evaluate and is too quick to excuse many of Gramm-Rudman's demonstrated flaws. But at the same time, while Gramm Rudman, of Gramm-Rudman II, or even the Budget Enforcement Act of 1990 or President Clinton's "Vision of Change for America" in 1993 did not necessarily cause dramatic changes in fiscal policy, they arguably have had some effect on limiting the growth of government when taken as a whole, and have established a direction which is clearly not expansionary, nor conducive to discretionary fiscal policy.

More importantly perhaps, assessing Gramm-Rudman according to its effects on spending or even on the deficit may be missing the point for purposes of this dissertation. For the argument here is that the Kennedy Tax Cut was a high point and Gramm-Rudman a low point in American fiscal

activism. The case for the Kennedy high point has already been offered. The case for the Gramm-Rudman low point has also been offered but must first fight off the primary contender for its place, in this case ERTA.

ERTA was indeed a watershed event, but there are a number of reasons why it should not be seen as low point in American fiscal activism. First and foremost, while ERTA was an explicit rejection of countercyclical policy on the part of its framers, it was nonetheless a big tax cut in the face of a weakening economy. Keynesians could clearly support the notion of a tax cut, though not the particulars of this tax cut. Indeed, the battle over whether ERTA "worked" due to supply-side or Keynesian demand-side factors has not, and probably never will be, "settled", and both sides still claim it for themselves (Garrison 1983). Whatever the case may be, demand-management advocates were, at the time of the Reagan cuts, claiming credit for any of the stimulative effects the Act might have (Rousseas 1982).

Second, although ERTA effectively killed off any tax cuts which might be taken by fiscal activists in the face of recession (or tax increases in the face of surging demand), it did not kill off attempts by Democrats in particular to introduce measures to revive the economy through Keynesian means. In particular, Democrats focused on spending measures rather than tax measures as a perhaps more direct way of serving Democratic constituencies. House Democrats managed to

pass in 1982, among other provisions, \$1 billion in funding for countercyclical public works jobs, an extension of the Carter-era program. The program was, of course, killed in the Republican-controlled Senate (Congressional Quarterly 1982, 59-60).

There is no question that ERTA set in motion the processes that would culminate in Gramm-Rudman, in particular the recapture of tax-cutting by supply-siders, the making of strange bedfellows of liberal-conservative alliances against President Reagan for budgetary limits, and the continual deficits which made functional finance seem an extravagance. But ERTA was not itself the low point, but the prelude to the low point. Democrats spent much time attempting to undo ERTA, and tried unsuccessfully to use countercyclical arguments to advance their causes. It remained for Gramm-Rudman to pass to show them just how ineffective these arguments were and to explicitly abandon all pretense to a Keynesian lineage. Before Gramm-Rudman, there were Keynesians and Supply-siders. After Gramm-Rudman, we were all balanced-budget advocates now.

CHAPTER 3: NEW IDEAS AND OLD IMPULSES - THE DEBATE OVER THE KENNEDY TAX CUT

In January of 1963, Walter Heller was testifying on behalf of the President's tax cut, when, in response to a question by Martha W. Griffiths, he made what proved to be a remarkable gaffe. "I think it is quite remarkable," Heller said, "that the basic puritan ethic of the American people should be such that they want to deny themselves tax reduction." He went on to say that Americans needed an education in how critical the tax cut was to sustain a growing economy (MacDowell 19??).

The remark sparked an miniature firestorm of protest in the press and from tax cut opponents. Though the immediate crisis died down quickly, passing and condescending reference to the need to educate "puritans" was made continuously throughout Congressional debate over Kennedy's tax bill.

Indeed, the remark had struck such a major nerve, that Representative Hale Boggs, a Democrat from Louisiana, felt compelled to give a long explanation and apologia for Heller's miscalculation. Bogg's statement is worth quoting in some detail:

The gentleman from Missouri [Representative Curtis, Republican from Missouri] in his remarks here on the floor yesterday said that this bill was the creature of Dr. Heller;... I have already said who I think put this bill together. But let me say a word or two about Dr. Heller, because I think maybe in some ways he has gotten a little jostling, which is fair in this business of public affairs.

He used a phrase which has been manna from heaven, so to

speak, to my Republican colleagues. He talked about the Puritan ethic. I do not know what Dr. Heller meant by the Puritan ethic, but if he meant that the society in which we live, which is a highly industrialized, urban society, is somewhat different from the society in which our Puritan ancestors lived, then I must say that I must agree with him.

Why do I say that? When our ancestors came here they could not go around to the supermarket and get a nice cut of roast beef for 89 cents a pound. They could not go down to one of the big department stores and buy every gadget you need to put in your house. They could not look in the telephone directory to get the name of a contractor, to have him come out and build them a house. There was no way for them to get from one place to another, and there was no way for them to communicate one with another, unless they rode a horse, if they had a horse.

As a matter of fact, that society could not exist today in our society. I am not for one moment saying that we should not be prudent, that we should not be frugal, that we should not husband our resources, that we should not scorn waste and seek efficiency.

I say that we live in a society which is totally different, economically speaking. We still have the same moral values and the same respect for liberty and for freedom and for a free society as our ancestors. But the economy is quite different as everybody knows. Our Puritan forefather had to go out with a shooting iron, so to speak, and shoot himself a deer or a squirrel for something to eat. Today we live in a society which has been described as an affluent society and rather than having an economy of scarcity, we have an economy of abundance.

Even in the matter of savings. We save about 7 percent, that is about the overall rate. If we had very much more than that, we would not improve our economy. In many ways it would become sterile. Right now we have our investment funds, building and loan associations and our banks and others. The problem is not to find that money. The problem is to invest the money. So I say, and this is merely by way of digression, if that is what Dr. Heller meant by the expression, then I do not think Dr. Heller made any great radical pronouncement (Congressional Record 925/63, 18046)."

Boggs meant his statement, of course, as a defense of the "New Economics" being used by Heller and others to justify

passage of the tax cut. But his words have another, almost transparent, interpretation, namely that despite all the changes which had been wrought in American society, American citizens were still comprehending events through the lens of a much earlier time. In particular, Heller's indirect appeal to hedonism was just a little too jarring for a populace which, although living a life more full with material pleasures than at any time past, still thought of itself as a self-reliant, frugal band of rugged individualists.

Traditionally, the Kennedy Tax Cut has been thought of as (by its proponents), a step in the education of the American people in more sophisticated economic theory, or (by its opponents) as a misguided tilt towards the Leviathan (Buchanan 1977). But despite the use of many New Economic concepts during the debate, the continuity of ideas from years past, often reinterpreted but nonetheless present, is rather striking.

Camelot

Few administrations have started with the public optimism that the Kennedy administration started with, and perhaps fewer still have been viewed with such a sense of loss after the fact. Kennedy was, after all, one of the youngest Presidents ever elected to the Office; he was telegenic in the dawn of a television age; his lifestyle and family seemed cultured and glamorous; and his rhetoric, aided by the talents of speechwriter Ted Sorensen, staked out a "New Frontier" and

called citizens to join together in staking a claim to it. There were serious problems to be faced, but it seemed that there were solutions to these problems if only the commitment could be found.

Kennedy himself is typically described as something of an economic moderate or conservative with an open mind (Harris 1964, 1966; Norton 1985; Sorenson 1965, 1969; Stein 1969). It happened, so the story goes, that his mind was opened by an economic team consisting of the members of his first CEA, Walter Heller, James Tobin, and Kermit Gordon. (Heller's appointment was announced at the same time as the rest of the Cabinet appointments, a minor protocol, but a departure from the past, particularly compared to Eisenhower's delay in naming CEA members) (Norton 1985, 143).

Heller was 45 at the time of his appointment. Kermit Gordon, 44, was from Williams College and James Tobin, 42, was a specialist in econometrics and monetary theory who had won the John Bates Clark medal awarded by the American Economics Association to an economist under 40. Gordon left the CEA to become Budget Director in 1962, and Tobin left that same year to return to academia. Gordon was replaced by John P. Lewis of Indiana University who had been Council staff under Keyserling, while Tobin was replaced by Gardner Ackley, from the University of Michigan (Norton 1985, 145).

To hear Heller describe matters, the Kennedy Administration was as close to an ivory tower as one got in

Washington at that time:

You always had the feeling that the most competent ideas would win out....We said...There's no chance of having inflation in this slack economy.' And in those days, long before 'stagflation' and 'momentum inflation', there really wasn't...[W]e got in a plug for doing something about cost-push inflation on grounds that the only real threat to price stability at those low levels of operation might come from business and labor groups with excess market power (Hargrove and Morley 1984, 175-176).

Kennedy's conviction was really a dedication to the democratic process. He really, honestly, felt that you had to persuade the public, or at least the major movers and shakers, policymakers, men and women of affairs; they had to understand (Hargrove and Morley 1984, 180).

Heller also describes the "education" of President Kennedy.

Now, what about his basic values?...He obviously was deeply concerned, far more deeply concerned than President Eisenhower had been, with the plight of the unemployed, with wasted resources. At the same time, he was somewhat politically bound by the balanced budget concept and the criticism by Nixon...Kennedy knew it didn't make any sense to balance the budget...Kennedy said he wished he had Eisenhower's ability to run big deficits without damaging his image as a budget balancer. He knew...as far as appearances were concerned that he had to have a balanced budget; as far as economic substance was concerned, he fully understood that you do not have to balance the budget when the economy is 'slack' (Hargrove and Morley 1984, 178-179).

It is well known that Kennedy's economic team did not share Heller's single-mindedness with respect to fiscal policy. First, the CEA was only one of a number of other economic policymaking bodies. Although Heller wanted, and got, status as the chief economic adviser with no competition from special assistants on economic affairs and also got the right to choose his Council members subject to Kennedy's veto, the CEA had to coordinate, and sometimes compete with, other

economic policymakers (Hargrove and Morley 1984, 193-94). Heller described his view of policy coordination between the CEA and the Treasury Department, the Commerce Department, and the Bureau of the Budget. "Dillon was the major counterweight to the Council, and we were the major counterweight to Treasury (Hargrove and Morley 1984, 188)." "Dillon handled the fiscal, financial, tax side; Bell handled the budget side; and the Council handled the economic forecast side (Hargrove and Morley 1984, 190)."

Dillon was more of a pragmatic conservative, and with Stanley Surrey as his Deputy, had a clear interest in tax reform. Treasury Undersecretary Robert Roosa, formerly with the New York Federal Reserve Bank and a specialist on the U.S. balance of payments was also an Administration conservative, whose views were often similar to that of William McChesney Martin, head of the Federal Reserve Board (Norton 1985, 146).

Heller described David Bell as a "mild liberal" sympathetic to a tax cut to stimulate the economy (Hargrove and Morley 1984, 204). The Organization for Economic Cooperation and Development staff in Paris - Von Leumer, and Christensen, head of the Secretariat - urged cutting U.S. taxes rather than interest rates (Hargrove and Morley, 202).

Kennedy's other advisers included John Kenneth Galbraith, Carl Kaysen, Seymour Harris, and Paul Samuelson (Norton 1985, 141-142). Of these, Galbraith was shipped off as Ambassador to India largely because, through his writings and his

presidency of Americans for Democratic Action, he was viewed as too liberal to have high visibility, though he continued advising the President during the times he was home from India (Norton 1985, 142-143). Galbraith in particular opposed a tax cut, arguing in The Affluent Society that there were already more than enough consumer goods and that it was not private consumption that needed to be pumped up, but public sector goods which had long since been outrun by private affluence (Norton 1985, 146).

Even within the CEA there were divisions of opinion. Tobin and Gordon were advocates of a tight fiscal and loose monetary policy, believing that at full employment, a budget surplus should be run, to be plowed back into capital markets through debt retirements, thus lowering interest rates and easing the flow of capital (Hargrove and Morley 1984, 196-197; Tobin 1972; Heller 1967). Indeed, Tobin and Gordon were only reluctant supporters of the tax cut.

The tax cut policy option prevailed within the Administration, and, given the bulk of opinion on the part of those within the Administration, and the commanding position granted to Heller, that outcome was probably never in doubt, particularly once Kennedy was "convinced" of the need for one. Congress, however, was a formidable obstacle to passage of the tax cut, or so it appeared.

Debating the Kennedy Tax Cut

The Tax Cut of 1964 went through a long gestation and

formulation both within the Administration and in public. That story has been well told many other places and will not be repeated in detail here (see, for example, Campagna 1985; Hargrove and Morley 1984; Harris 1964, 1966; Heller 1967; Okun 1969; Schlesinger 1965; Sorenson 1965, 1969; Tobin 1972; Witte 1985).

Formal consideration by Congress of the Revenue Act of 1964 is confined to a fairly short period between January 24, 1963, when President Kennedy submitted his tax proposal to Congress, through February 26, 1964, when the final version of the tax bill was signed into law by President Johnson (Congressional Quarterly 1963, 470).

The first hearings on the bill were held by the Joint Economic Committee between January 28 and February 6, which were formally devoted to consideration of the 1963 Economic Report of the President. It was on the first day of this hearing in which Heller made his notorious "puritan" comment. Much of the testimony devoted specifically to the tax cut was reiterated and repeated at later hearings before the House Ways and Means Committee and the Senate Finance Committee. Perhaps the most notable event, besides the Heller gaffe, was a call for the resignation of Budget Director Kermit Gordon by Senate Democrat Harry Flood Byrd, Chairman of the Finance Committee and a noted fiscal conservative representing the State of Virginia. Byrd's statement, which was not made as part of the hearings, was triggered by newspaper reports of

Gordon's predictions of greater unemployment being spurred by expenditure cuts to offset tax cuts, a position which Gordon also took in testimony before the Joint Economic Committee. The shock value of Bryd's statement was mitigated somewhat by the fact that he had called in 1962 for the resignation of Gordon's predecessor, David Bell, because the FY 62 budget called for a planned deficit (Congressional Quarterly 1963, 1115).

The next major engagement over the tax bill were the hearings before the House Ways and Means Committee which occurred over 26 days between February 6 and March 27. 267 witnesses appeared before the committee, including major Administration officials such as Treasury Secretary Dillon, Budget Director Kermit Gordon Commerce Secretary Luther Hodges and Labor Secretary W. Willard Wirtz. Most of these witnesses had appeared before the Joint Economic Committee and would appear again before the Senate Finance Committee (Congressional Quarterly 1963, 479-482).

After the hearings concluded in March, the Committee spent six weeks in executive session, with Treasury officials participating often in the discussions. Work on various provisions of the bill continued until June 19, when the Committee's work was suspended, ostensibly to allow staff members time to complete drafting of legislative language for decisions made earlier. Action finally resumed on July 31 when voting on final provisions began. Voting continued until

September 10 when the final bill was reported out. The Committee's report was filed on September 13 (Congressional Quarterly 1963, 483).

There was a short period of House floor debate, during which a Republican motion for recommittal was rejected and the bill as drafted by the Ways and Means Committee was passed by a vote of 271-155 on September 25 (Congressional Quarterly 1963, 486).

HR 8363, as it was numbered, then went to the Senate. Bryd, in no hurry to pass a bill before the FY 64 budget was fully specified and finalized, did not convene the Finance Committee in hearings until October 15. These hearings lasted until December 10 and heard directly from over 132 witnesses, with many more written submissions. While some amendments were voted on in Committee before the Winter Recess, final action was deferred until the next year (Congressional Quarterly 1963, 497-499).

On November 22, 1963, President Kennedy was assassinated and Lyndon Johnson assumed the Presidency. Action in January was fairly fast: the Finance Committee reported the bill out on January 28, 1964, and passed the bill on February 7. The House and Senate Conference was rapid. The House passed the conference report on the bill on February 25 and the Senate passed the report on February 26. President Johnson signed the bill into law on February 26, 1964 (Congressional Quarterly 1964, 518).

The Revenue Act of 1964 was a major tax bill in its own right, and the greatest portion of the debate over the bill focused on traditional tax issues such as incidence of the taxes, distribution of the burden and the appropriateness of specific provisions such as mineral depletion allowances and income-averaging.

This bill was different however because it was justified explicitly on macroeconomic grounds. Unlike other major postwar tax measures up to that time, where countercyclical effects were seen as important but secondary effects to the structural reform provisions, this bill was debated explicitly as a countercyclical measure whose reform measures were seen as important but secondary features. In this sense, Stein and other authors were correct in characterizing the Kennedy measure as a fiscal high water mark.

Still, the Congressional debate is indicative of how close that high water mark was to prior flood stages. Much of the debate remained centered on the tax provisions themselves. As other authors have pointed out, Congressional dynamics were quite similar to past bills in that special interests were catered to and balanced against one another until enough votes were secured for passage. Revenue raising provisions gave way to revenue-losing provisions so that by the end of the Ways and Means hearings, the Administration's reform part of the package, rather than raising \$3.3 billion, lost a small amount of revenue. Of the 19 Administration proposals that would

have increased taxes, only 4 were passed, while of the 27 revenue-losing provisions, 16 were passed in their entirety and one was passed in part (Witte 1985, 160).

In addition, even much of the debate over the countercyclical effects was framed in narrow terms of benefit to taxpayers, either consumers or businesses. Kennedy in particular slanted his arguments towards the demand-stimulus effects of the tax cut, emphasizing the increased consumer purchases that the tax cut would allow. His nationwide address in support of the tax cut is worth quoting at length:

...the fact is that the high wartime and postwar tax rates we are now paying are no longer necessary. They are, in fact, harmful. These high rates do not leave enough money in private hands to keep this economy growing and healthy. They have helped to cause recessions before in previous years - including 1958 and 1960 - and unless they are reduced they can cause recessions again.

....First. A tax cut means more jobs for American workers. More aftertax money means buying power for consumers and investors - and this means more production and the jobs our nation needs. Merely to reduce unemployment to a more acceptable level in the next 2 1/2 years, we must create more than 10,000 more new jobs every day.

We cannot effectively attack the problems of teenage crimes and delinquency until we attack teenage employment. We cannot effectively solve the problems of racial injustice until we create more jobs for all. We cannot effectively tackle the challenge of automation until there are more jobs for the men who are being thrown out of work by machines.

Second. A tax cut means new protection against another tragic recession. I do not say a recession is inevitable without a tax cut or impossible with one. But, excluding war years, we have had a recession on the average of every 42 months since World War II - or every 44 months since World War I - and by next January, it will have been 44 months since the last recession began. Recession

means high unemployment and high budget deficits. Of all kinds of waste, they are the worst. We need a tax cut to keep this present drive from running out of gas.

Third. A tax cut means new markets for American business. American citizens will spend an overwhelming percentage of the extra aftertax dollars left in their pockets; and this spending will broaden the markets of businessmen - put idle machines back to work - and require new machines and new factories to be built. The multiplied effect of these new private consumption and investment expenditures released by the tax cut will create a new market right here at home nearly equal to the gross national product of Canada and Australia combined.

Fourth. A tax cut means higher family incomes, higher business profits and a balanced Federal budget. Every taxpayer and his family will have more money left over after taxes, for a new car, a new home, new conveniences, education, and investment.

Every businessman can keep a higher percentage of profit in his cash register or put it to work expanding or improving his business. And as the national income grows, the Federal government will ultimately end up with more tax revenues. Prosperity will balance our budget. Our tax rates are so high today that the growth of profits and paychecks in this country have been stunted, our tax revenues have been depressed, and our books for 7 of the last 10 years have been in the red (Congressional Record 9/23/63, 17672).

Kennedy's appeal was especially simple: put more money in people's hands and let them spend it. Spending, not saving, was the tonic which would cure the economy. Once more money was in the economy, there would be a push to buy more goods and hence a push to employ more people. With more people employed, there would be a lessening of various social problems such as "teenage delinquency." Even businessmen would pump up the economy by keeping more of their profit (the capitalist's equivalent of wages in this construct) after taxes. Of course they too must spend that extra cash in the

"cash register" (presumably to spend on consumption goods for his own consumption) or into new plant.

This was a fairly simplistic, and familiar, Keynesian appeal. What makes it more interesting was Kennedy's reluctance to let it stand by itself. Just in case the taxpayer did not accept the job argument, Kennedy reminded his listeners that:

....Under this bill, every wage-earner in the country will take home more money every week, beginning next January 1. Every businessman will pay a lower tax rate. Low-income families and small businessmen will get special tax relief. And the unemployed worker who gets a new job from all this will gain thousands of dollars a year.

...

Here is how it will work:

A factory worker with three dependents earning \$90 a week will have his taxes reduced by one-third.

The typical American family - a father, mother, and two children - earning about \$6,000 a year now pays an annual income tax of \$600. This bill will cut that tax by 25 percent.

A salaried employee with a wife and two children, who earns \$8,000 a year, will receive a tax cut of more than 20 percent that will enable him to pay the installments on a new dishwasher for his wife.

These individual benefits are important. But the most important benefits go the Nation as a whole, as these typical families and millions like them spend that extra money on a new dishwasher, or a new spring wardrobe, or a washing machine, or an encyclopedia, or a longer vacation trip, or a downpayment on a new car, or a new home. The businesses which serve them need to hire more men. The men who are hired have more money to spend. The companies who sell these items have more incentive to invest, to improve, and to expand their operations. More young people out of school will find work. And the danger of recession is less (Congressional Record 9/23/63, 12672).

This appeal was a fairly transparent way of telling the

voter that they can do for their country by doing for themselves. Yes, the tax cut had direct benefits for the taxpayer which were quantifiable and, Kennedy said, substantial. But even better, if those monetary benefits went to purchase dishwashers, cars and home improvements, individual benefits, through aggregation, became national benefits, a sum greater than the parts. Consumption, far from being a reason for guilt or shame, was a positive civic duty.

The emphasis of tax cut proponents on consumption as the engine of economic growth came out especially clearly in an exchange between AFL-CIO head George Meany and Congressman Burke during the Ways and Means hearings on the bill:

"Mr. BURKE. Mr. Meany, would you agree with me when I say that those people who are in the lower bracket are the people who are in need of goods, they are the people who are in need of refrigerators, televisions, radios, they are in need of automobiles to transport them back and forth to work where our transportation systems are falling down.

Would you not agree with me that these people more than likely, would take the money realized from the tax cut and put it back into the economy and wouldn't we be on much safer ground if we give them the larger tax cut. But isn't there a possibility if you give a big tax cut to those in the higher bracket they will just take that money and salt it away? We certainly would be sure that those in the lower bracket, if they get a tax cut, would put that money in circulation and thereby create more business.

Mr. MEANY. There is no question that the people in the lower bracket will spend any savings they get because they spend practically everything now. Any savings they get in taxes in the lower brackets it is our opinion, and I don't know whether this is socialistic or not, but it is our opinion that they are more likely to spend it than the people in the higher brackets (U.S. Congress, House Ways and Means Committee 1963, p. 1983)."

This colloquy was almost pre-Classical in its simplicity and is certainly far more primitive than the Keynesian arguments made by the Council of Economic Advisers. But the exchange does capture much of what made the tax cut appealing to a great mass of the American public and to much of the labor movement in particular, namely the promise of direct benefit to the great mass of their constituents, and a fear of a recurrence of the Great Depression. Adequate consumption - in this case, more consumption - was a necessity to keep employment and growth levels from lagging ever more. Underconsumption was a real threat, and here was the basis for arguing for more rather than less progressive tax rates since the rich presumably "will just take that money and salt it away" as Congressman Burke put it above. Thus it was that equity and efficiency arguments were melded into one for liberals and labor leaders and others inclined to lower taxes on the lower classes and leave them high on the upper classes.

A more sophisticated consumptionist defense of more progressive tax rate changes was offered by Leon Keyserling, Truman's chairman of the Council of Economic Advisers, in testimony offered before the Senate Finance Committee.

My first basic proposition is that the current economic situation, viewed in sufficiently broad perspective to make the examination meaningful, calls for large and prompt fiscal measures, including tax reduction, to stimulate economic activity (U.S. Congress, Senate Finance Committee 1963, 631).

My second basic proposition is that devising the proper

kind of tax reduction depends upon correct analysis of the type of disequilibrium which has occurred in the U.S. economy during the past and is still present...by far the largest deficits have occurred with respect to private consumer expenditures....

My third basic proposition is that investment trends during the past decade, when compared with other trends, provide no justification for the proposition that large tax concessions are needed now for the purpose of stimulating investment, especially when the additional Federal deficits which these concessions would entail could be devoted to far more salutary programs in the interest of the national economy (U.S. Congress, Senate Finance Committee 1963, 643).

My fourth basic proposition is that the specifics of the current tax bill, in its present form, provide excessive and substantially wasteful stimulants to investment, and far too little stimulation of consumption (U.S. Congress, Senate Finance Committee 1963, 650).

My fifth basic proposition is that the personal tax cuts, under the current bill in its present form, would put disproportionately too much additional spending power where it is not needed, and not nearly enough where it is needed most (U.S. Congress, Senate Finance Committee 1963, 663).

My sixth basic proposition is that the current tax proposal in its present form, especially because of the defects in its internal composition, would provide a very inadequate stimulus to the U.S. economy (U.S. Congress, Senate Finance Committee 1963, 674).

Keyserling recognized in this statement the argument that taxes can shift relative prices (and hence incomes) and thus change behavior such as work and investment - the basis of the supply-side or incentive arguments for a tax cut. To rebut the contention that tax cuts worked their magic largely through supply side, rather than demand side, effects Keyserling provided a lot of data to back up his third proposition that incentives to investment were adequate at that time. Instead Keyserling focused on absolute prices and

incomes, arguing that taxes were sopping up too much money from lower-income people who thus could spend less and, in spending less, were keeping the economy from producing to its full capacity. This is the familiar "fiscal drag" argument offered by Heller for lower tax rates.

In contrast to demand-side stimulus as the tax-spurred engine of economic growth, the incentive argument was one used often by those in favor of a tax cut, but not Kennedy's version of a tax cut. Walter E. Hoadley, Vice-President and Treasurer of Armstrong Cork Co., testified for the bill before the Senate Finance Committee and laid out the differences between the incentive and the consumption arguments quite clearly:

On the one hand are those who believe in the so-called purchasing power theory which holds that increasing spendable income in the large, lower income group is the most effective way to stimulate economic growth. On the other hand are those who are convinced that the best way to promote faster and sustainable growth is to increase incentive to investment and job creation. We at Armstrong recognize some validity in both these theories. But we contend that revitalized investment incentives will provide the most enduring stimulation to bring about the kind of growth needed for the years ahead. This can be accomplished most practically and immediately by a substantial tax reduction (U.S. Congress, Senate Finance Committee 1963, 943)."

The incentive argument, as has been pointed out by Stein and others, was used by many people to argue for a flatter rate structure than that proposed by Kennedy. The same argument was also used by those calling for a tax cut to be paired with an equal expenditure cut. As Stein documents well, the presence of an incentive effect invalidates the

strict Keynesian equality that equal cuts in taxes and spending will lead to a net reduction in spending, since the marginal propensity to consume (MPC) of the private sector is less than one while that of the government sector is equal to one. With incentive effects, the exact effects of such a combination can only be determined empirically: it may be a stimulus, dampener, or neutral in its macroeconomic effects. Heller, being a good economist, could no more deny incentive effects than he could deny substitution effects, being as they spring from the same source. His stratagem was essentially to assert that incentive effects were, in this case, unimportant (Stein 1969, 442-449).

As a practical matter, the incentive argument was not a particularly serious threat to Kennedy's tax cut plans. Both demand side and supply side arguments went in the same direction: a tax cut. Moreover, although the incentive theory tended to lead to less progressive tax changes than those suggested by Kennedy, everybody recognized that the Administration bill was the best opportunity for major tax reduction and were thus loath to oppose it without reservation. Some samples of testimony given before the Senate Finance Committee, and reiterated before the Ways and Means and Joint Economic Committee on different occasions, give some idea of this broad feeling:

My name is Floyd C. Newton, Jr., and I am vice president and treasurer of Dundee Mills, Inc., of Griffin, Ga. I am appearing today as chairman of the Tax Committee of the American Textile Manufacturers Institute, Inc.

American Textile Manufacturers Institute, Inc., is a national trade association which represents approximately 85 percent of the mills in this country that spin and weave textiles from cotton, manmade fibers, and silk...

At this point, I would like to present for your information the basic policy recommendation of our tax committee which has been approved by the board of directors of the American Textile Manufacturers Institute, Inc.

'The tax committee unanimously recommends that the textile industry support a balanced and fair reduction in the rate structure across the board for both individuals and corporations. This should be accompanied by a reduction in Government expenditures, or at the very least by a holding of the line on further increases, with the goal being a balanced budget and a reduction in our national debt. This committee believes that by a substantial reduction in corporate and individual tax rates the economy of our country will be stimulated and will thus provide increased tax revenue.'

....
 Senator BENNETT: If none of your amendments are adopted, would you suggest that the committee approve or reject the House bill?

Mr. NEWTON: Frankly, Senator, we would like to see some of our suggestions adopted.

Senator BENNETT: I am sure you would, and so would I, but suppose none of them are adopted?

Mr. NEWTON: If we were forced to make a decision on a yes or no basis, I think we would prefer the tax bill (U.S. Congress, Senate Finance Committee 1963, 958-965)."

Walker Winter, Chairman of the Federal Revenue and Expenditures Committee of the Chicago Association of Commerce and Industry (which he described as consisting "of approximately 6,000 business and professional organizations with active participation by some 10,000 individuals from such organizations in the Chicago metropolitan area", wrote in support of:] "H.R. 8363 with the modifications hereinafter suggested and urges its enactment without delay... "

The association is fully aware of the views of many that a reduction in tax rates should not be considered until there has been a substantial reduction in Federal expenditures. We are in sympathy with these views. Nevertheless, in our judgement the retention of the present oppressive rate structure carries with it a greater danger of a substantial budget imbalance for the future than does a reduction in those rates. Business modernization and the expansion of industrial plant can proceed at an accelerated pace if present tax rates are reduced. We believe that the shortest route to a balanced budget is through the enactment of the tax bill this year (U.S. Congress, Senate Finance Committee 1963, 1016-1018)."

W.P. Gullander, President of the National Association of Manufacturers (NAM) testified that:

the tax rates which impose such a stifling burden on economic progress and job creation are those applied to personal income and corporate income. This association has long advocated a major reform of Federal income tax rates which would be accomplished over a period of years. This approach would provide the maximum release of incentives and capital for economic growth with minimum effect on the Federal tax receipts in any one year.

While such complete reform seems unattainable at this time, a major objective should be to mitigate, to the greatest degree possible within the framework of H.R. 8363, the tax rate barriers to capital formation, economic growth and job creation (U.S. Congress, Senate Finance Committee 1963, 1031)."

Concentration of tax reduction dollars at the lowest income level may provide an immediate stimulus to the economy and, thus, put a number of people to work in the very short range. Also, such a short-term stimulation may generate some economic activity which will carry through to later years. However, whatever the continuing effects of demand-type tax reductions, they must be negligible over the long run as compared with the revitalizing effect of substantial relief from tax rates which directly and adversely affect incentives and limit capital for growth (U.S. Congress, Senate Finance Committee 1963, 1035-1062)."

Bernard H. Little, Secretary-Treasurer of the Ohio Brass Co., on behalf of the Ohio Manufacturers Association,

testified:

In conclusion, tax reduction is good, in and of itself, because it lets people spend more of their money and government spend less. Even though tax reduction is initiated in a period when the budget is in the red, it establishes priority for greater reliance on the private economy and less reliance on government spending. The key objective of tax reduction at this time, however, should be to establish an economic climate which will generate more income for all people, put people to work who are now unemployed, and provide jobs for new workers as they come into the labor force, and thus advance the overall well-being. If this objective is achieved, it will of itself protect against excessive Federal spending in the years ahead. It will also greatly strengthen the Federal revenue base.

I subscribe to the view that the passage of tax reduction legislation should be accomplished by contemporary evidence that Federal expenditures are being brought under control. On the other hand, I express the hope that the question of current fiscal responsibility not be allowed to overshadow the importance of shaping the tax bill so that it will contribute the most to long-term economic growth (U.S. Congress, Senate Finance Committee 1963, 1102).

Most business groups testified before the various Committees, pleading for their special interests, calling for spending restraint, or arguing for more business-oriented cuts, but favoring the bill before them as better than nothing. Liberals generally thought the bill too modest and not progressive enough, but they too favored it in the end, Keyserling being a notable exception.

Despite the different sources of the demand-stimulus and incentive effects arguments, they were similar in the respect that either way benefits, in the form of reduced tax payments, were promised to one set of taxpayers or another. As Stein

notes, the Kennedy Administration had to acknowledge the incentive line of argumentation, not only because the arguments were brought up so often but also because they are well embedded in traditional public finance theory.

But, as shown above, incentive arguments were not generally used by the Administration in support of the tax cut. Indeed, business was catered to rhetorically but always in terms of the spendable income that capitalists could gain rather than the rewards they were being given to save and invest. The distinction is subtle but important. Spending was the engine of growth which the tax cut was meant to tap, not savings and investment. In this sense, producers were just another class of consumers, and profits were analogous to wages. Lower taxes meant more after-tax income to spend on that shiny new machine, whether it be an automobile, a dishwasher, or a machine tool.

The more serious opposing arguments which Kennedy faced were generally of a more traditional form. The traditional conservative arguments were of three types: (1) deficits are bad, and this tax cut would result in a planned deficit; (2) big government is bad, and this bill would result in big government; (3) inflation is bad, and this bill would result in inflation. More sophisticated arguments tied these various strands together and added the balance of payments and the increasing stock of government debt to the deleterious effects which might occur because of a tax cut. Others argued that

the improving economy rendered a tax cut superfluous, or claimed that there was no political support for a tax cut, that nobody really wanted one. There was also some attempt, most notably by the leader of the Republic opposition, Representative Curtis, to counter Keynesian arguments directly. In an intellectual sense, these attempts may have been the most potentially damaging to the Keynesian arguments. Politically, these arguments were impotent.

Kennedy's September 19 address anticipated, and attempted to answer, most of these critiques:

[I]f we are to make the most of what this bill has to offer in creating jobs, fighting recession and balancing our international payments and internal budgets, it must not be diluted by amendment or conditions. It must not be sent back to House Ways and Means Committee. It must not be put off until next year. This nation needs a tax cut now...

.....
The support in this country for a tax cut crosses political lines - it includes small businessmen, workers and farmers, economists and educators. Very few are openly opposed to cutting taxes. But there are those who, for one reason or another, hope to delay this bill - or to attach ruinous amendments - or to water down its effect.

They want to deny our country the full benefits of tax reduction because, they say, there is waste in Government. There may be, and we are working to get rid of it - but let us not forget the waste in 4 million unemployed men and women, with the prospect of still more unemployment if this bill does not pass.

Those who are opposed talk about inflation when, in fact, prices have been remarkably steady for 5 years - our record of wholesale price stability in an expanding economy is unmatched in modern history - and when persistent slack in our economy is far less likely to lead to inflation than to recession.

Those who are opposed talk about the Federal debt when the actual burden of that debt on our economy is being

steadily reduced. Since World War II, the national debt has gone up only 11 percent while our national output has nearly tripled, in contrast to the debt of State and local government, which has risen 400 percent in the same period.

Those who are opposed to this bill talk about skyrocketing Federal employment when, in fact, we have steadily reduced the number of Federal employees serving every 1,000 people in the country. In fact, there are fewer Federal civilian employees today than there were 10 years ago. We have reduced waste and improved efficiency at the Pentagon, in the Post Office, in the farm program, and in other agencies throughout the Government.

Section I of this bill, as Chairman MILLS, of the House Ways and Means Committee, has pointed out, makes clear that voting for this bill is a choice of tax reduction instead of deliberate deficits as the principal means of boosting our economy.

....No wasteful, inefficient or unnecessary Government activity will be tolerated on the grounds that it helps employment. We are pledged to a course of true fiscal responsibility, leading to a balanced budget in a balanced full-employment economy (Congressional Record 9/19/63, 17672-17673)."

To respond to those who argued that deficits would result from the passage of the tax cut, Kennedy had basically two responses. First, everything would be done to hold down expenditures and reduce inefficiency in government. Second, without a stimulus to the economy, deficits would remain more persistent and grow larger, i.e. the revenue shortfall would be greater without a tax cut than with one.

Kennedy made the first argument forcefully, and his minions, including a privately skeptical but openly supportive Wilbur Mills, pressed this point hard.

Oh, yes, I am aware of the fact that some of those on the other side of the aisle say that they are for a tax cut too, but then they go on to attach some ifs, buts, ands, and maybes to it. They say they want a tax cut only if

expenditures are reduced....

I can assure you that there is no one more interested in holding down Government spending that [sic] I and the other members of the Committee on Ways and Means who reported this bill. It was for this reason that we placed in this bill as section 1 the declaration by Congress. It is quite short; let me read it to you:

'It is the sense of Congress that the tax reduction provided by this act through stimulation of the economy, will, after a brief transitional period, raise (rather than lower) revenues and that such revenue increases should first be used to eliminate the deficits in the administrative budget and then to reduce the public debt.

To further the objective of obtaining a balanced budget in the near future, Congress by this action, recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.'

I have heard this referred to as a pious hope but I can assure you that it will not be merely a pious hope if the Members of Congress and the administration really adopt this philosophy of action. I firmly believe that we will.

The President on three separate occasions has quite recently placed himself on record in favor of economy in Government spending. This has all been an outgrowth of this tax reduction bill and the section included in it by your committee.

First, there is the letter he sent to me which is printed on pages 124 and 125 of the committee report. In this the President states:

'First, our long-range goal remains a balanced budget in the balanced full employment economy. It is clear that this goal cannot be achieved without a substantial tax reduction and the greater national income it will produce.

Second, tax reduction must also, therefore, be accompanied by the exercise of an even tighter rein on Government expenditures, limiting outlays to those expenditures which meet strict criteria of national need.

Third, consistent with these policies, as the tax cut becomes fully effective and the economy climbs toward full employment, a substantial part of the increased tax

revenues will be applied toward a reduction in the transitional deficits which accompany the initial cut in tax rates.

Fourth, assuming enactment of the tax program incorporated in your committee's bill with a consequent loss of revenue of \$5 billion more in fiscal 1965 than in fiscal 1964, I nevertheless expect - in strict accordance with the above policies, and in the absence of any unforeseen slowdown in the economy or any serious international contingency in the next 5 months - to be able to submit next January a budget for fiscal 1965 involving an estimated deficit of less than the \$9.2 billion forecast for fiscal 1964 by the Secretary of the Treasury in your executive sessions last week.' (17905-17907)

Here the President committed himself to preventing expenditure increases from exhausting the additional revenues which arise as the economy expands as a result of the income generated by this tax reduction.

A week ago yesterday, I released a statement much of which I shall repeat in a just a moment expressing my philosophy that we should provide a more prosperous economy by loosening the constraints on the private sector of the economy rather by [sic] following the policy of increasing Government spending. After I released my statement, the President sent me the following unsolicited letter:

'I thought your Monday release in support of the tax bill was excellent. It should be convincing to Members of Congress and I subscribe to it.

Sincerely,

JOHN F. KENNEDY

Still more recently, the President in his recent television speech said:

'No wasteful, inefficient, or unnecessary Government activity will be tolerated. We are pledged to a course of true fiscal responsibility leading to a balanced budget in a balanced full employment economy.'

I believe that given the passage of this bill, the President has committed himself to a course of true economy in Government expenditures...

To those of you who may not be satisfied with these assurances, however, let me point out that in any event, the President cannot spend a nickel unless Congress first

authorizes it. As a result, we have in our own hands the power to limit Government expenditures and I do not believe that we will abdicate our responsibilities (Congressional Record 9/24/63, 17907-17908)."

In effect, Mills was saying "trust us" to those who were doubtful that assurances would be kept and was piling verbal and written statement upon statement to show that the Administration meant what it said. Mills also added that Congress ultimately had the power to make those statements stick through its power to approve or deny specific appropriations.

The obvious response to this particular line of argument was that actions spoke louder than words and Kennedy's actions to this point were suspect regarding expenditure reduction. Some typical responses include the following:

"Mr. SHORT....

First, let me state flatly: We Republicans are in favor of tax cuts. It is a longstanding Republican position that excessive tax burdens and steeply progressive tax rates should be reduced. Our history of action - not just words - will prove this.

Second, let me state just as flatly: We Republicans oppose this attempt at fiscal fraudulence. We oppose this attempt to grant tax reduction while actively resisting efforts to control mounting Government expenditures (Congressional Record 9/25/63, 18067)."

Mr. ABERNETHY....

I would support a tax reduction if it were accompanied by a proportionate reduction in Federal spending. There is plenty of fat in the Federal bureaucracy that could be cut out. For example, the Justice Department might terminate its vendetta against my section of the country. Untold millions could be saved here, to say nothing of the peace and tranquility that would inevitably follow (Congressional Record 9/25/63, 18092)."

Mr. CURTIS: Mr. Speaker, this morning the Committee on

Rules began hearing the Committee on Ways and Means' request for a closed rule on the proposed tax bill of 1963. The chairman of the committee, Congressman MILLS, in his usual able fashion, presented the case for this tax bill. I think it is worth paying attention to the basis upon which he premised his case. It is that there will be expenditure reforms. The difference between the gentleman from Arkansas, Congressman MILLS' position and that of those of us on the minority side and, I am happy to say, many Democrats, is the question of whether you can rely on words in the light of the context of deeds that are opposite. Or whether indeed we do not have to rely on actual performance at this time on the part of expenditure reform. The fact remains that the President's budget, which he presented to us, requesting an additional obligational authority of \$108 billion still remains unchanged. His expenditure rate for fiscal year 1964 in that budget of \$98.8 billion still remains unchanged. The fact remains that every single one of these programs calling for increased expenditures still has the heat of Executive pressures behind them...The premise is that there will be expenditure reform. As a matter of fact, the premise is not justified by the cold facts. This original tax-cut proposal was made by the President in consultation with his Council of Economic Advisers. It is best expressed by the statements of Chairman Heller wherein he said that expenditures cannot be cut. If you cut expenditures you cut back on the economic incentive that is hoped to be gained from this tax cutting. Let us have some debate on this novel theory instead of running away from it as the President is now doing (Congressional Record 9/18/63, 17340).

This sort of argument could never really be resolved, ostensibly coming down to an issue of credibility and actually more of a political posturing to allow key Members of Congress, including Mills, to say that they were adhering to the doctrine of fiscal responsibility. True, everyone knew that this coin of the realm was debased, but it was legal tender nonetheless, and a necessity than no politician desiring reelection could do without.

Not being able to establish or disestablish credibility,

the debate shifted to whether or not bill would, in fact, actually increase the deficit, and if so, by how much. Administration officials and sympathizers, being good Keynesians, firmly maintained that any short-run deficits would be compensated for by long-run surpluses generated by renewed economic vigor. An exchange between Boggs and Dillon during the Ways and Means hearings on the bill is enlightening:

Mr. BOGGS. What you are saying is that you need this economic thrust, so to speak, to pick up this deficit which exists both in human resources and physical resources, so that you will stimulate the economy and ultimately increase employment and increase revenues.

Secretary DILLON. Very much so. That is the same, to release the private economy to do the job we think it can do.

Mr. BOGGS. Would not this be in the classical sense considered good free enterprise economics? What you are saying is that you return, so to speak, or you leave, if you want to put it that way, with the private sector - by that I mean individuals, you and me and all the rest of us - and with the corporate entities, a substantial amount of money so that these people and these corporate entities make their own individual determinations on how they are going to use these funds rather than having these determinations being made at the Government level; is that correct?

Secretary DILLON. That is correct.

Mr. BOGGS. Would not that be considered a moderate 20th century capitalistic approach to the problem?

Secretary DILLON. I certainly would think it was. I think it is liberal in the true sense of the word as applied to a free economy and free enterprise. It certainly is in no sense a radical program.

.....
Mr. BOGGS. In your study you have undoubtedly taken a look at alternatives. If we are moving, or if our growth rate is not as rapid as most economists think it should be - and there is a consensus about the need for

adjustment. The disagreement seem to be in the area how you do it [sic]. I have seen the U.S. Chamber of Commerce, NAM, [National Association of Manufacturers] Committee on Economic Development, private economists, all say that the tax cut is required at this time in our economic history.

Assuming that we do nothing, which is one of the things that could happen, would you think that this would mean a vast reduction in Government expenditures and that the budget would be reduced and there would be less spending?

Secretary DILLON. No. I think perfectly obviously, if we enact this tax reduction program, there would be more pressure to hold down expenditures than if we do not. If we do not, conversely, the pressures to increase expenditures, if only to take care of the large numbers of unemployed and areas of distress will be much larger than otherwise, and we will continue to have high expenditures.

Mr. BOGGS. If the present plateau period which we seem to be in should shift to a decline, doesn't the past indicate that rather than reduce expenditures, the pressures would be to increase expenditures?

Secretary DILLON. The past indicates that. It also indicates that if such a decline should come, the cost of decline in Government revenues would be far greater than the transitional cost in Government revenues of putting in this tax reduction program (U.S. Congress, House Committee on Ways and Means 1963, 540-541)."

Dillon was making two arguments here. One argument is that a tax cut, by leaving less revenue available to the government in the short run, will discipline the Federal government's spending during that time. Interestingly, just this sort of machination was often ascribed to the Reagan tax cuts. Note, however, that in order to work, there has to be present the political will not to run deficits.

The second argument of Dillon's got more to the heart of Keynesian theory. Tax cuts would increase demand, which would

increase employment, which would increase taxable income, which would increase revenues in the long run. The analogy to supply side causal chains based on incentives is obvious.

To buttress their various viewpoints on the effect of the tax cut on deficits and other economic variables, participants in the debate seemed to use economists much as drunkards use lampposts - for support rather than illumination. The Keynesian bloc in the economics profession was heard over and over during the debate over the tax cut. The most complete statement was made during the Senate Finance Committee hearings:

My name is Lester V. Chandler and my position is professor of economics, Department of Economics, Princeton University. I should like to present a statement approved by 313 economists affiliated with 14 colleges and universities...

As professional economists, we welcome the administration's clear recognition of the role which Federal fiscal policy can and should play in maintaining and expanding the level of economic activity. While some of us disagree with one or another specific feature of the tax program now before the Congress, we all, without exception, subscribe to the following propositions:

1. There is now a substantial deficiency of aggregate demand in the American economy, with the result that the level of unemployment is significantly higher than it need be - and, in our opinion, higher than it should be.

2. While there are significant 'structural' problems which make it difficult to find jobs for the more disadvantaged of the unemployed, the first need is to achieve a higher overall level of economic activity. If this is done, efforts to retrain and relocate displaced workers will be more effective.

3. We subscribe to the belief, as recently expressed by Walter Heller, that an- 'increase in aggregate demand is most appropriately brought about in a predominantly private enterprise economy such as ours by means of monetary or fiscal measures.'

4. It is generally agreed that, in the present situation, monetary policy by itself cannot bring about the necessary expansion of economic activity - in part, because of the restraint imposed by the present balance-of-payments situation. Hence the primary reliance must be on fiscal policy.

5. While we welcome the improvement in economic conditions which has occurred in the last few months, we believe that 'natural forces' alone will not eliminate excess unemployment this year or even next year.

6. It therefore follows that, in the months ahead, substantial use should be made of fiscal policy as a means of stimulating aggregate demand and raising the level of unemployment. This can be done by reducing tax revenues, by increasing Government expenditures, or by some combination of the two.

7. We believe that the increase in the Federal deficit proposed by the administration is not too large, given the objective being sought. We are confident that both the short-run and long-run effects of the tax reduction will be beneficial. Indeed, insofar as there is a difference of opinion among us, it is that some of us believe that a larger tax cut should have been proposed.

8. On the whole, we believe that the administration's program, as originally submitted to Congress, represents a reasonable compromise. It provides tax reductions for both individuals and corporations. It should provide a significant stimulus to consumers' spending, and it should have a beneficial effect on private investment. Virtually all of us believe that substantial tax reform is badly needed, but we also believe that arguments as to the details and timing of tax reform should not delay the prompt approval of a substantial across-the-board reduction in Federal income tax rates.

9. We should like to assure the American people that a Federal deficit of the magnitude proposed, given the extent to which capital and labor are not now being fully utilized, carries no danger of accelerated inflation. Nor does such a deficit in any manner or degree threaten the solvency of the Federal Government. This country's outstanding record of economic growth during the last century and a half or more has been associated with increases in debt representing mobilization of the people's savings by business and Government. It should be noted, also, that the size of the deficit will automatically decline as rising incomes generate increased tax revenues at the lower rates.

10. We should also like to affirm - and we do so with complete confidence - that there is nothing to fear from the present size of the Federal debt. Nor is there anything to fear from the moderate increase in the debt that will result from the deficits envisaged in the next few years. Indeed, measured as a fraction of the gross national product, the Federal debt today is much smaller relatively than it was 15 years ago. And interest payments on the debt absorb a significantly smaller fraction of the national income than they did at the end of World War II.

In the realm of economic policy - as in all social and political action - there are as many versions of what is best as there are people who are likely to be affected by any proposed line of action. To insist on a perfect tax program is to insure that nothing will be done. The administration's program is a significant step in the right direction (U.S. Congress, Senate Finance Committee 1963, 866-868; see appendix A to this dissertation for a selected list of other signatories)."

Chandler echoed the Keynesian arguments that Heller and others were making at the time: there was a cyclical unemployment problem which natural forces were unlikely to cure by themselves. Government action was necessary. This action should take the form of either increased spending or a tax cut to increase demand. While the debt and deficit would increase in the short run, given the magnitudes of those increases, the current size of the debt, and the extent of unused capacity in the economy, there was no risk of inflation. Moreover, Chandler claimed to be supported by the economics profession as a whole.

One response to arguments of this sort was to challenge the economic logic using economists who did not share in the above consensus (or at least could be quoted out of context).

Representative Curtis employed such a strategy during the House debate over the bill.

Mr. Speaker, the administration contends that its economic program of tax cuts, more Federal spending, and larger budget deficits would not be inflationary. The inflationary fires, it says hopefully, have been dampened, and the economy's idle plant and equipment and unemployed manpower will provide insurance against renewed price advances. Large budget deficits would be financed in such a way, it claims, as to neither cause inflation nor offset the stimulus of tax reduction.

Mr. Speaker, for the country's sake I hope the administration is right if its view prevails. A renewal of inflation not only would work severe hardships on our low-income and fixed-income citizens, but it would also lead to a serious worsening of our already critical balance-of-payments situation. The administration expects that our balance-of-payments deficit and the gold outflow problem will be corrected by price stability at home and rising prices abroad. That would suppose the European countries would not take steps to curb their own inflationary forces and that we would. The opposite seems to be what is coming about. European countries are taking action to stem inflation, the Kennedy administration is promoting policies that would increase inflationary forces. Should these hopes prove barren, there is no doubt whatsoever that our balance-of-payments deficit will worsen, possibly leading to eventual devaluation of the dollar and a world financial crisis.

In analyzing the administration's position, it should be noted that inflation has not been stopped. While it is true that the wholesale price index has remained steady in recent years, the consumer price index is of more concern to the American consumer. That index has been rising steadily...

Many economists foresee a renewal of price pressures this year even without the stimulus of a tax cut. The U.S. News & World Report said on May 6, 1963, that among leading economists in businesses and universities whom it interviewed, 'a heavy majority looks for a revival of inflationary pressures during the months ahead-particularly toward the end of the year.' The economists believe that: 'If taxes on incomes are reduced, adding to the Federal Government's deficit, then those pressures are expected to grow even more.'

Here is what some of our leading economists are saying:

Ira Ellis, Economist for E.I. du Pont de Nemours and Co., said: 'Inflation problems will be more severe next year.***The threat in 1964 will be greater than at any time since the Korean War.'

Jules Backman, Economics professor at New York University, said: 'What really worries me is the virtually callous disregard of large deficits.' If proposed spending programs are continued, 'inflation is bound to grow as a problem.'

According to Emerson Schmidt, research director of U.S. Chamber of Commerce [sic]: 'Government budget policies pose a real danger of inflation for the future. Except for a small surplus in 1960, we have had deficits ever since 1957, and *** we are in for several more.'

As Arthur Rosenbaum, business-research director for Sears, Roebuck, noted, wholesale prices for manufactured goods will show a 'moderate rise.' From now on, 'even modest wage increases are likely to be reflected in higher prices.'

According to Paul McCracken, economics professor at the University of Michigan, 'Prices are going to edge up.' We forget that the quiescence in prices may have been just the other side of the coin of a rather unsatisfactory business situation.

Wilson Wright, chief economist for Proctor & Gamble, said: 'In the past few months I have found more knowledgeable people concerned with the prospect of inflation than in any time during recent years.'

The U.S. News summed up the views of the majority of the economists it interviewed as follows: '[...]Inflation..., many economists believe, will be more serious in 1964 than in this year.

Single largest inflation force is said to be the large - and continuing - deficits in the Federal budget.'....

Coming on top of the current economic expansion, a tax cut - unless accompanied by a tight rein on Federal spending - clearly would add fuel to the inflationary threat. The idle plant and equipment which the administration says is an insurance against inflation is being rapidly diminished in the current expansion. McGraw-Hill reported the rate of utilization for manufacturing in July at 87 percent of capacity. This compares to a preferred operating rate of 92 percent.

The utilization rate has not stood this high since December 1955 when it registered 92 percent.

....
In his recent study of our economic growth published in the August 1963 Federal Reserve Bulletin, Clayton Gehman has said: 'Another implication of the inquiry is that there is less slack in the U.S. economy than is generally supposed. If the growth in physical output and consumption has been faster than the deflated gross expenditure totals suggest, then margins of unused capacities are not so large as often thought.'

....
The administration's claim that a sharp upturn in economic activity would be noninflationary because of idle manpower is also questionable. While the unemployment rate - seasonally adjusted - was 5.5 percent for August 1963, the rate for teenagers was 14.1 percent. However, the rate for married men was 3 percent, or well below the administration's interim target of 4 percent for the labor force as a whole. In contrast to married men, women 20 years and older had a higher unemployment rate than the average, standing at 5.7 percent.

....
There is an urgent need for improvement in the Nation's unemployment situation...It is always easier to deal with frictional and structural unemployment during period [sic] of cyclical upturn as opposed to periods of downturn. But it would be folly to think that a rapid expansion in economic activity would lead automatically to the immediate employment of these people. Aside from the difficult problems arising from discrimination which face many Negroes, most of the hard-core unemployed lack the education and skills required in our modern and rapidly advancing economy...

A general rise in economic activity, while helpful to the hard-core unemployed, would put increased pressures on the existing labor force and lead to upward wage demands and renewed inflation. As the Gehman study says: 'If expectations become too exuberant in the process of economic stimulation, this might increase upward price pressures and encourage speculative activities[...]'

....Budget deficits though inflationary means do not necessarily break through to produce what we call inflation. Much depends on how they are financed and what the state of the economy is at the time. If deficit financing is done through the commercial banking system by creating new money, this will tend to provide inflation because the pace of monetary expansion would probably be greater than the increase in the economy's growth. On the other hand, if financing is through the

savings of individuals with no increase in bank reserves provided by the Federal Reserve, this will net out as noninflationary primarily because it will tend to dampen economic expansion.

The problems of debt management arising from the administration's tax and spending program thus are critical in assessing its stimulative and inflationary effects. It really is impossible to separate tax problems from debt problems as the administration seems to be trying to do (Congressional Record 9/19/63, 17701-17703)."

Curtis attacked head on a number of Keynesian premises. His main line of attack was that there were far fewer underemployed resources available than Kennedy would have one believe and that any demand stimulus would result in inflation. Hence Curtis quoted evidence that capacity utilization rates were, when properly measured, quite high, and that unemployment among skilled labor groups, presumably those most readily employable to meet increasing demand, was quite low.

Curtis also argued that the increase in debt management was likely to be financed by an expansion in credit rather than funded through increased savings, further increasing the likelihood of a rise in prices. Strictly speaking, Curtis appears to be making a monetarist argument using a simple quantity theory: if M increases, then, to keep $MV=PT$, P must increase (though Curtis ignores the possibility of T increasing instead or as well). But Curtis is also calling attention to the fact that monetary policy is important to the outcomes. Keynesians like Heller (as opposed to Tobin) deemphasized monetary policy, but it was a factor to be

reckoned with. If one accepts that increased inflation is forthcoming, then there is an additional problem, as Curtis makes clear, with the balance of payments as the deteriorating value of dollar-denominated assets causes holders of dollars to flee to other currencies.

The speech above is interesting for one other reason, and that is its reliance on the opinions of economists. Chandler, in his testimony above, cited many economists who signed his petition. But Curtis quoted other economists, some equally prominent at the time, who came to conclusions, or seemed to come to conclusions, that were at odds with the statements Chandler made. Chandler himself was questioned closely by Senator Dirksen during the Senate Finance hearings about the representativeness of his survey:

Senator DIRKSEN: How many teaching economists are there in the country?

Mr. CHANDLER: I suppose 3,000 or 4,000. The statement was not sent to all institutions. We did not have large funds at our disposal, so we had to economize.

Senator DIRKSEN: Yes. The reason I am interested is because yesterday we had Dan Throop Smith, of Harvard, whose position in the field of economics, I believe, is pretty well recognized. I think you would agree, wouldn't you?

Mr. CHANDLER: Yes; he is a very competent man.

Senator DIRKSEN: And in addition, of course, he has a rather long Treasury experience under the prior administration.

Mr. CHANDLER: Yes.

Senator DIRKSEN: Now he took a pretty stout position against this tax bill yesterday.

Mr. CHANDLER: There are certainly quite a number of economists who would take that position.

Senator DIRKSEN: So you think there are as many as 4,000 teaching economists at the college level?

Mr. CHANDLER: This is a guess, but it is probably of that order of magnitude.

Senator DIRKSEN: It would represent then let us say about 10 percent.

Mr. CHANDLER: Yes, sir. If I had to guess, however, as to the percentage of the, who would have signed, had they seen the document, my guess is it would have been well over 50 percent.

Senator DIRKSEN: Well, were they all circularized?

Mr. CHANDLER: No; they were not. The statement went to approximately 75 colleges and universities.

Senator DIRKSEN: That would be how many people?

Mr. CHANDLER: Probably 700 or 800 would have been the potential.

Senator DIRKSEN: So you only circularized roughly 20 percent of the total number of teaching economists?

Mr. CHANDLER: That is true.

Senator DIRKSEN: And there is no indication of the negative answers that might have been returned?

Mr. CHANDLER: No. These would not have come to me. I am sure that there were some who did refuse to sign, but I have no way of knowing their names or number (U.S. Congress, Senate Finance Committee 1963, 872)"

In fact, the impressive list of names on Chandler's list, excerpted in part in the previous endnote, indicated the extent to which the profession subscribed to the general idea of the need for a tax cut on broadly Keynesian grounds. But, as mentioned above, this was not a universally held policy stance even among Keynesian economists; Tobin was a reluctant

supporter of a tax cut, and Galbraith pushed for more spending. There was also significant opposition among professional economists to Keynesian logic in general. The economics profession, as usual, was not speaking to politicians with a unified voice.

But even more importantly, Congressmen were only as inclined to listen to economists as the profession's position suited their needs. Indeed, economists had not been so united on a policy prescription since their widespread opposition to the Smoot-Hawley tariff. At that time, their advocacy was ignored. It did not meet political exigencies and, to Congress, it seemed so contrary to conventional wisdom. To violate conventional wisdom in that context was seen as exceptionally risky to a politician's reelection prospects.

At this time, the profession's advice as a whole was followed, but this time the politics happened to favor the course of action that economists favored and the risks of violating conventional wisdom did not seem so great as not violating it. After all, Eisenhower had run a big deficit and the sky had not fallen. Besides, the Great Depression was not so long ago and here was a measure that seemed certain to deliver direct benefits to voters but might forestall a return to those days of economic collapse.

Established political notions of conservatism and government activism seemed to loom largest in the political debate. Those who favored "pay-as-you-go" financing, such as

Senate Finance Committee Chairman Harry F. Byrd of Virginia, disliked deficits simply because they were deficits. Those who subscribed to pre-Keynesian economic theories, such as Representative Curtis of Missouri, disliked deficits because their theory of the economy suggested inflation and financial collapse rather than growth and price stability would result from an excess of Federal expenditures over revenues. And in this Cold War world, there were those who simply disliked a big state, saw deficit financing as a means towards that end, and saw that end as suspiciously close to Communism.

An exchange between AFL-CIO leader George Meany and Congressman Alger during the Ways and Means hearings is instructive:

Mr. ALGER. The troubles you mentioned were not solved by the New Deal formulas. They are still here.

Mr. MEANY. But the New Deal put out the fire.

Mr. ALGER. I gave you your inning, now listen to me. The problem of unemployment was solved by World War II. The pump priming we did put men to work in the wrong jobs, in the wrong places in the country, and did not solve the problem we had.

Mr. MEANY. It put food on the table didn't it?

Mr. ALGER. I can assure you that we have seen the failure of New Deal ways and we are trying to find better ways. As you said, our country was different then. We do have an entirely different structure. Yet you people keep going back to the same thing, the depression as a basis for our present program.

That is no longer is good as a basis. I am trying to find a new answer. The one we have not tried is the one that went back many, many years ago. That was the old private initiative, incentive and hustle and no pump priming.

Mr. MEANY. Didn't we try that in the twenties under 'Cool Cal.' [sic]

Mr. ALGER. Incentive cannot be laughed away because incentive is the only thing that keeps people working for themselves. That is why communism will never beat us. We will work better for ourselves than for the Government. When you take money from the man by Government edict, that he earns, people will not put forth their best efforts.

Mr. MEANY. I don't know, I wish I were as sure as you are that communism will never beat us. I am a little worried about the progress that they are making.

Mr. ALGER. They can't beat us if we stay true to the incentives and the jostle and the sweat that made this country.

Mr. MEANY. And the constantly rising percentage of unemployed (U.S. Congress, House Committee on Ways and Means 1963, p. 1990)."

For some, the Great Depression was to be avoided at all costs. Meany was articulating some of this feeling in his remarks. For others like Alger, it was the New Deal that was the worst part of that era. Not only was the New Deal ineffective - Alger makes the familiar argument that only the War saved the country from Depression, a feeling reinforced by memories of the 1937 recession - but it sapped incentive and misallocated resources. It might have put food on the table in the short run, but it also brought this nation closer to the ways of its Communist enemies.

One argument which was never made was that deficits were harmless. Deficits did have effects to be sure: positive means to positive ends for Keynesians, a path to ruin for fiscal conservatives. And, pushed to the extreme, deficits certainly are not harmless. Even a country as rich and as

powerful as the United States would be driven to default on its obligations if the deficit got "too big", whatever that number is, and one would expect such an event to have serious repercussions.

But no politician was explicitly making what might be perceived as the extreme argument that consumption-oriented Americans might prefer running manageable deficits as a way of consuming more future growth benefits in the present. As a practical matter, Keynesians conceded that the correctness of deficits depended on the situation. For example, in times of high demand, a surplus should be run, not a deficit. Conservatives used the simpler-minded argument that everyone, including the Federal government, should live within their means, implicitly assuming that the means of the household were analogous to the means of the government. While deficits had become more common since World War II, and had even been run by the conservative icon of President Eisenhower, no political leader publicly stated that continual deficits, in a practical range, were something that could be lived with. Twenty years later, there were still no public statements to this effect, but there also seemed a lot less private belief that this was true.

One interesting debate which took place over deficits and expenditure controls regarded the particulars of the Republican amendment to the tax bill - a motion to repeal the tax cut if FY 64 expenditures exceeded \$98 billion and FY 65

expenditures exceeded \$97 billion - or to the contention about whether the bill would in fact increase or decrease the deficit.

As to the first part, Democrats argued that the Republican alternative was a meaningless exercise. Democrats claimed that the measure was accounting sophistry, gave too much power to the President, and was arbitrary in its effects. Mills took up the first cudgel, arguing:

The gentleman from Wisconsin, for whom I have the utmost respect, stated the other night on television that the Republicans had found or he had found this unbreakable, magic way of providing for assurances that the spending would be held down. He has not found an unbreakable way. No, he has not found it. He has found some magic figures and he wants to say, if the President is willing to subscribe to them, then the tax reduction may go into effect. But, Mr. Chairman, we tried in the Ways and Means Committee to find such a method and could not, and no one in this Congress is going to find an unbreakable way to assure that expenditures can be held. If what we have in the bill is nothing but a pious hope...it is a pious hope because the people who say it have no confidence in the membership of this House to carry out what undoubtedly must be a moral obligation if you vote for this tax reduction (Congressional Record 9/24/63, 17909)."

In other words, a promise is only as good as the person making it, and Mills claimed that his word, and the President's, was as good as any resolution the Congress might pass.

Al Ulmann, a future Ways and Means Chairman, took up the same cudgel in a different way:

Mr. Chairman, as I listen to the debate today, and the demands for vague, general, nonspecific reductions in Government expenditures, I wonder whether the proponents of these reductions would be with us when we actually get down to cases. It is all very well to talk about

slashing lard and fat - these unpleasant things that sometimes come along with lean meat, bone and sinew - but I strongly suspect that the very people who stand foursquare today for generalized reductions will stand foursquare tomorrow against specific reductions to carry out their own sweeping demands (Congressional Record 9/25/63, 18060)."

In other words, talk is cheap, and without specific spending cuts, Ulmann was claiming that it was the Republicans themselves who were engaging in a pious hope.

Mills reiterated a similar argument later on in the debate when he said, "He gets us into a numbers game. If you shave \$1 billion off of the present estimate for 1964, without regard to what effect it has upon our Government, but just announce that the spending in fiscal 1964 is going to be \$1 billion less, then we have become fiscally responsible and we can have a tax reduction now (Congressional Record 9/25/63, 18117)."

Representative O'Brien of New York combined both an argument about the arbitrary nature of the measure with an appeal to fear of a new Great Depression:

In my judgement much of the beneficial impact of a tax cut will be lost if we attempt now to fix the level of Federal spending a year hence.

Where is the elbow room for national growth when he [sic] attempt now to pin tomorrow's spending, not upon the needs and requirements of tomorrow, but upon those of today or yesterday?

Why not go whole hog with this clever but specious approach? Why not make the second stage of the tax cut contingent upon a rollback to the spending levels of the Eisenhower years - or to the much lower level of the Truman years - or even to those of the Roosevelt, Hoover, Harding, or Coolidge years?

The latter level should have a special appeal to those who see no merit anywhere except in the past, who fear the tremendous national growth of the intervening years. When they look back to that era they see the golden age of American solvency - the economic utopia - the time when hot ticker tape was more important than high paychecks - the era of small government - the glorious period when we had no social security - the era when we accepted the county almshouse as a fitting end of the road for those who labored most of their lives to break even.

Of course, some might be so unkind as to remind us that those dear, dead days, were followed by the deepest depression of our century.

I suggest that the amendment which divides us today would transform a tax reduction bill, desired by an overwhelming majority of the people of this country, into a job reduction bill. And may I register a doubt that anyone will appreciate a tax cut on a nonexistent income (Congressional Record 9/25/63, 18061)."

Congressman Mahon made the argument that the measure would restrict the Congress more than the President since the President could manipulate the budget estimate to suit his own purposes and then had considerable power to allocate budget totals among projects, some of which might be very dear to particular Representatives:

I am going to discuss with you, if I may, the proposed motion to recommit.

My thesis is that it will not hold water, it will not save money.

....
This is not an economy motion. It does not save a penny. It just simply says that the President, in submitting his expenditure budget, must submit it at a certain figure in order for the tax bill to take effect. The President can easily say, 'I will dribble out the expenditure of money which you have made available to me for a few more years or a few more months, if that is what you want me to do,' but he can still set his spending estimate. Bear in mind that this estimate is made 18 months in advance of the end of the forthcoming fiscal year. He can set it at the figure required in the motion. There is no problem there. But in this process Congress will have lost its

power and control and will have suspended the sword of Damocles over every congressional district and over the head of every Member of Congress.

Why do I say that?....There is carried over from the previous fiscal year many billions of dollars in funds available for expenditure, and we will add to that the expenditures made possible by the present appropriations bills, so the President - regardless of what we do about cutting the remaining bills for 1964 appropriations...is going to have more money available to spend in 1964 than he would plan to spend or than he would spend.

....But what we do here under this motion to recommit is to give the Executive a mandate. We say to him, 'Now, you must not spend all the money we have appropriated. We may have been too generous in providing appropriations so you cannot spend all that we have provided. You have to be selective. Which projects and programs will you carry out? Which ones will you cut back? Whose districts will be involved? Which programs will be eliminated and which programs will proceed?' (Congressional Record 9/25/63, 18093)"

The motion to recommit might seem familiar in its particulars. It is conceptually quite similar to Gramm-Rudman in the sense of setting budget targets into law. The motion even had an enforcement mechanism, namely repeal of the tax cut. Many of the issues raised by the motion were raised when Gramm-Rudman was offered. Indeed, these same arguments above were made more than twenty years later when Gramm-Rudman was being debated.

CHAPTER 4: ACTIVE SUPPRESSION OF FISCAL ACTIVISM

During the debate over the Kennedy Tax Cut, Representative Curtis, leading the Republican attack on the bill on the floor, accused his opponents of obscuring their real views.

I know there are people who sincerely believe in that theory of deficit financing. These are the modern Keynesians who actually believe that in order to move forward economically we have to have more Government spending, not less. These are sincere men, and Dr. Heller is one who leads them. There are many economists who believe in this but there are many who disagree with them. I certainly disagree with it. But let us have it out in the open.

....
We are not trying to engender fears of budgetary deficits. We are trying to point to budgetary deficits of the past and foreseeable future and we are trying to point out our theory of what are the economic consequences of these deficits. These economic consequences are dire and should be feared (Congressional Record 9/18/63, 17340-17341).

Senator Gary Hart made a remarkably similar argument during the early Senate debate over passage of Gramm-Rudman.

I have nothing against a debate which says the Great Society was wrong, the Federal Government should not be doing these things, or even for that matter that the New Deal was wrong, that the Federal Government should not have been doing all of those things under Roosevelt. Let us have that debate; let us have it in the open. But let us not go through the back door as some in this administration have sought to do, dramatically cutting taxes, dramatically increasing spending, dramatically increasing the deficits on purpose, and then come into the U.S. Senate in 72 hours and say we are now dramatically going to alter the structure of the Federal Government in the United States for our own priority purposes (Congressional Record 10/5/85, S12698).

Both Senators were frustrated with what they felt to be a lack of discussion of the real issues, namely the proper size and role of the Federal government. Curtis and Hart were

on opposite side of the government growth argument, but to both of them, deficits were merely the symptom of a larger disease, whether it be creeping socialism or supply-side abandon.

The differences and similarities between the two debates is in many ways summarized by these juxtaposed quotations. In both cases the clearest fault line remained State activism and laissez-faire. In both cases, deficits were the flashpoint of that fault line. In both cases, opponents struggled vainly to stop what increasingly seemed to be unstoppable proposals. But in at least one respect, the two debates were quite different: Gramm-Rudman was born of pessimism, an almost desperate attempt to do something, anything, to reverse a current policy course, while the tax cut, however flawed it might be, was an optimistic and affirmative policy action to change a current policy course.

The Reagan Counterrevolution

In contrast to the initial optimism of the Kennedy years, the start of Reagan's term was marked by a palpable sense of anger among the electorate. There was a sense, whether it was justified or not, that the economy, and indeed, the society at large, was not working. Reagan's policies, whatever those might be, might not work either, but they were worth a try. At the very least, the Reagan regime would shake up the existing power structure which delivered the record high "misery index" - inflation plus the unemployment rate - of the

late 1970's.

Reagan's answer to this economic malaise consisted of a set of interdependent parts heavily influenced by supply-side economics with a dash of monetarism and traditional conservatism thrown in. The plan's elements included:

1. A large tax cut
2. Defense spending increases
3. Slower but steady growth in the money supply
4. Substantial reductions in federal regulation
5. Domestic spending decreases
6. A balanced federal budget in a short time.

Remove any one piece of this program and, it was argued, the other pieces would not work. Thus monetary restraint was necessary to control inflationary expectations, and to increase productivity (which would further reduce inflation) the tax cut was needed (Norton 1985, 220-221).

This was the program embodied in Reagan's first budget which proposed big defense increases, \$38 billion in domestic spending reductions, and a big tax cut. This budget largely followed Budget Director David Stockman's plan, outlined in a transition memo he wrote entitled "Avoiding a GOP Economic Dunkirk".

The memorandum was conservative but also drawn largely from political pragmatism rather than strict supply-side ideology. Stockman argued that Reagan would inherit disordered capital markets, high interest rates and

hair-trigger market psychology that would overreact to both bad and good news. He argued for big spending cuts and tax cuts of all kinds - this would bring all sorts of advocates into a single coalition. He also argued that the Fed's efforts to limit money supply growth should be defended, a position which was later to get him into conflict with other supply-siders.

This sort of conservative eclecticism was carried over into Administration appointments. Donald Regan, Chairman of Merrill Lynch, was chosen as Treasury Secretary. He had limited choice in choosing his subordinates. Beryl Sprinkel, a follower of Milton Friedman, was brought in as Undersecretary for Monetary Policy. Undersecretary for Tax Policy was Norman Ture, a supply-sider, and Deputy Assistant Secretary for Economic Policy was Paul Craig Roberts, who helped draft the original Kemp-Roth bill. Stockman and his own economic adviser, Larry Kudlow, brought in John Rutledge of the Claremont Economics Institute to run the Claremont econometrics model to replace the WEFA model used under Carter (Norton 1985, 222).

Meanwhile, Murray L. Weidenbaum was chosen as CEA head. Weidenbaum was an economist from Washington University in St. Louis, and a former Treasury official, who had written widely on the costs of regulation. His writings had often been used by Reagan in speeches. Weidenbaum, aged 54, held a PhD from Princeton. The other two CEA members were William A.

Niskanen, with a PhD from the University of Chicago, who had been chief economist for the Ford Motor Company, and Jerry Jordan of the faculty of the University of California at Los Angeles, where he had also obtained his PhD (Norton 1985, 223). Weidenbaum almost resigned as soon as he arrived, mainly because of the games being played with budget economic assumptions, and because of the intense turf battles between different economic policy advisors within the Administration (Norton 1985, 228-229; Weidenbaum 1986).

To get the initial Reagan program enacted, Stockman proposed using a strategy Carter employed in his last year in office. Congressional budgeting procedure called for passage of a budget resolution which set overall revenue and expenditure targets. Individual appropriations bills passed later were meant to fit within these targets in the process known as "reconciliation". If the spending measures exceeded the targets, points of order could be employed to block the bills until the spending called for was reduced sufficiently. Carter used these points of order for the first time in passing and reducing spending in his FY 80 budget.

Stockman used reconciliation instructions in the same way with Reagan's first budget resolution to cut \$38 billion from Carter's "current services base", focusing cuts on domestic programs. These same instructions would raise defense by \$27 billion and cut taxes, resulting in a substantial FY82 deficit. Stockman's proposal reached a balanced budget by

FY84, largely through rosy economic projections (Schier 1986, 63-66).

After passage of the Economic Recovery Tax Act (ERTA) in 1981, Reagan's economic team changed composition a number of times. Reagan's CEA was particularly unstable. Weidenbaum departed in August of 1982, and was succeeded by Martin Feldstein, who became chair on October 14. In 1983, Feldstein maintained a low profile, but got lots of press praise and his star rose as Stockman's, who had given an overly frank interview with the Atlantic, fell (although more outside the Administration than inside - apparently Stockman's detailed knowledge of the budget process was invaluable to the Reagan team) (Norton 1985, 231).

Then, in February of 1984, Feldstein publicly said that deficits were the cause of inflation and the trade gap and needed to be curbed. Secretary Regan publicly told Congress that as far as he was concerned, the portion of the Economic Report authored by Feldstein could be thrown away. Feldstein refused to resign, though he did leave July 10, 1984, citing a 2-year limit on leave from Harvard.

His post remained unfilled until February of 1985 when the Chairmanship was filled by Beryl Sprinkel, who had been serving as Undersecretary of the Treasury for Monetary Policy and had been a chief economist for the Harris Trust in Chicago. In early 1985, only Niskanen remained on the CEA and when his hopes to become Chairman were dashed he resigned.

Sprinkel remained the sole member, but he was soon joined by Thomas Gale Moore from the Hoover Institution, with a PhD from the University of Chicago (serving from 1985-1989) and later by Michael J. Mussa, a professor and PhD from Chicago (serving from 1986-1988) (Norton 1985, 234). As the narrative above indicates, the CEA was in considerable disarray throughout the Reagan Administration, and did not play a central role in Administration policymaking, at least in fiscal matters.

Debating the Gramm-Rudman Act

Thus was the diverse sort of economic team which carried Reagan to the threshold of the Balanced Budget and Emergency Deficit Control Act of 1985, more popularly known as Gramm-Rudman-Hollings, or Gramm-Rudman for short, after its three cosponsors, Senator Phil Gramm, Republican of Texas, Senator Warren Rudman, Republican of New Hampshire, and Senator Ernest Hollings, Democrat of South Carolina. With that bill, this team was confronted with a Congressional initiative - produced by a Congress with a Democratic House majority and Senate Republican majority - which caught the Administration by surprise, which the President did little to push, and in fact did something to thwart. The contrast with the dynamics of the Kennedy tax cut could not be much more complete.

On December 4, 1984, Stockman announced a budget plan, which was sent to Congress on February 4, 1985. The plan contained \$35.1 billion in cuts, mainly in middle income and business interest programs, including a one-year freeze in

Medicaid, Medicare, child nutrition subsidies, farm price supports, rural electrification, and civil service retirement programs; selective cuts in programs such as sewage treatment grants, land management and Aid to Families with Dependent Children (AFDC); and complete elimination of the Small Business Administration (SBA), Urban Development Action Grants (UDAG), Amtrak subsidies, general revenue-sharing, the Job Corps, and the Export-Import Bank. The program excluded defense from cuts allowing for a 5.9% real increase and left Social Security untouched (West 1987, 119-120).

On March 14, 1985, the Senate Budget committee passed a resolution which called for \$55 billion in deficit reduction from a COLA freeze in Social Security and a Defense freeze in real terms. 13 domestic programs were eliminated, including general revenue-sharing, trade adjustment assistance, the Economic Development Administration and the Community Development Block Grant program. The package passed on a straight party-line Committee vote of 11 to 10.

On May 10, 1985, the Budget Committee package passed on the Senate floor by 49-49 with Vice-President Bush casting a tie-breaking vote. Only one Democrat (Zorinsky) voted for the plan and only 4 Republicans (D'Amato, Hawkins, Mathias, and Specter) voted against it (West 1987, 121).

The House Budget Committee then passed a budget resolution a week later cutting \$56 billion, retaining the 1986 COLA for Social Security, freezing Defense at 1985 levels

and eliminating only general revenue-sharing. The plan got out of the House Budget Committee by 21 to 12, with only one Republican - W. Henson Moore of Louisiana - voting for it. On May 23, 1985, House Concurrent Resolution 152 (H Con Res 152) passed by a vote of 258-170. Only 15 Democrats defected on this vote (West 1985, 121).

After difficult negotiations between the House and Senate in conference, on August 1, the conferees agreed on a budget package, which then passed by the House by 309 to 119 and the Senate by 67 to 32. The deficit was \$55 billion lower than predicted with spending cuts in Amtrak, mass transit, and the Economic Development Administration, but with most savings coming from rosy economic assumptions (West 1987, 122).

At the same time the House originated House Joint Resolution 372 (HJRes372) automatically under procedures contained in House Rule XLIX which required that whenever the House and Senate agreed upon a budget resolution, the Clerk of the House would send the Senate a joint resolution raising the debt limit by the amount called for in the budget resolution. This procedure had been adopted so that whenever a budget resolution was agreed to, a debt-limit increase would also be set in motion, so that the likelihood of engagement in the typical battles over such increases in the past would be lessened. Under these procedures, the measure was deemed to have passed the House by the same vote that brought the two houses into agreement on the budget resolution.

The Senate closed action on the first budget resolution for FY86 on August 1, 1985, concurring in the further amendment of the House. On September 4, 1985, the Speaker of the House announced that pursuant to rule XLIX, the House Clerk had transmitted HJRes 372 to the Senate and that the measure was deemed to have passed the House on August 1, 1985. Finally, on September 26, 1985, the Senate Finance Committee reported out HJRes 372 (U.S. Congress, Senate Finance Committee 1985; Keith 1986).

But agreement up to this point was not quite so easy as the description above makes it sound. In conference negotiations over the budget resolution for 1986, Budget Committee Chairman Peter Domenici, with Dole's support, sought to break the legislative impasse by proposing a program containing modest constraints for defense, a 1-year Social Security COLA freeze, modest reductions in some domestic programs, and some additional revenue. While some believed this approach would have passed, Reagan ruled out any tax or defense changes, and House Democrats rejected the rest of the package (Havens 1986, 7-8).

The stalemate continued as the two Houses could not agree on a budget. Senate leaders now saw a need to bypass the President and agree directly with the House. Meanwhile, legislators were hearing from their constituents during the August recess that the deficit was a problem and news coverage of excessive defense spending was weakening support for the

defense buildup.

It was in this context, that, on September 25, Gramm introduced his amendment to HJRes 372 as reported out by the Senate Finance Committee. Gramm's proposal, as proposed at this time, set declining deficit targets, eliminating the deficit by 1991, required OMB and CBO to estimate the deficit and average any disagreements, and, if the estimated deficit exceeded the maximum by more than 5%, required the president to eliminate it with half coming from "controllable spending" and half coming from reduction or elimination of COLA's. If this action did not reduce the deficit, the balance was to come from a further reduction in controllable programs (Havens 1986, 9).

The President was attracted to this initial proposal due to its simplicity and the flexibility it appeared to give the administration in making cuts. The Senate was taken by it too and Senate Majority Leader Bob Dole, Republican of Kansas, Senate Budget Committee Chairman, Paul Domenici, Republican of Nevada, Senate Finance Committee Chairman Bob Packwood, Republican from Oregon and the Ranking Minority Member on the Senate Budget Committee, Lawton Chiles, Democrat of Florida, took charge of the bill (Havens 1986, 9). The amendment passed the Senate after a number of days of debate, including a rare Sunday session. The measure then went to the House, where the Democratic leadership, fearing that a floor vote on the Senate amendment would pass overwhelmingly, immediately

went into conference on the motion instead (Congressional Quarterly 1985).

Since the President had endorsed Gramm's initial proposal and would seem to agree to nothing else, Senate leaders decided to focus on gaining House approval without consulting the White House. At this point, major changes were made, the first of which were embodied by the Domenici alternative introduced on October 10 during the initial Senate debate, which exempted Social Security and greatly reduced Presidential discretion by tightly defining "controllable expenditures" (Havens 1986, 10; Congressional Record 10/10/85, debate on amendment 771 on S13093-S13104).

In conference between the Senate and the House, rules were further tightened to make sure make sure defense did not escape and that programs in addition to Social Security would be protected. After two weeks in conference, the conferees reported in disagreement on November 1, 1985 (House Report No. 99-351). That same day, the House receded from support of its own version of Gramm-Rudman, and concurred with an amendment, by an almost completely party-line vote of 249-180, with one of the Senate amendments, thus modifying the measure with its own version of the 1985 Balanced Budget Act.

This particular vote was largely a procedural gambit by House leaders to start in motion a second conference on the measure. Rostenkowski offered this House amendment - its own version of Gramm-Rudman with two Senate-passed amendments, one

which condemned the hijacking of the Achille Lauro cruise ship, and the other which changed the provisions of the Alternative Minimum Tax (AMT) - to the Senate. In response, the Senate agreed to a unanimous consent request by Dole providing for adoption of the conference report and providing for additional amendments.

From November 4 through November 6, the Senate considered further amendments and adopted, by 74-24, a substitute to the Rostenkowski amendment, numbered 957 and offered by Packwood, which also contained a further amendment to the original AMT amendment. This amendment was essentially the Senate's original package.

On November 6, the House disagreed to the Senate amendments and requested a further conference. That same day, the House rejected, again by largely party-line votes, a motion by Mack to accept the Senate version (177-248) and a motion by Lott to instruct the conferees (181-239). On November 7, the Senate insisted on its amendment and a new conference - the second one - was scheduled.

Several weeks of deliberations ensued. Finally, the conferees ended negotiations on December 10, 1985 with a compromise agreement (House Report No. 99-433). The Senate accepted the agreement 61-31 after reversing the decision of the Chair on a point of order on a section of the measure (68-27), and tabling a motion to recommit the report with instructions (76-18). The House accepted the report, 271-154,

and on December 11 President Reagan signed HJRes372 into law as P.L. 99-177 (Keith 1986,, 8-9). Ironically, Gramm-Rudman had taken up so much of the Congress's time that a final budget was adopted late and the deficit ended up being higher than it otherwise would have been (Congressional Quarterly 1985).

An explanation of Gramm-Rudman

In its particulars, the Kennedy tax act was far more complicated than the Gramm-Rudman act. But conceptually, the Kennedy act was a straightforward, if multifaceted, cut in taxes. Gramm-Rudman was a more complicated and less straightforward creature. Though in essence it set binding deficit targets, its provisions require more explanation for their importance to be fully understood.

Traditionally, Congress has had two sorts of budgetary control: authorizations, which provide authority for future spending, and appropriations, which provide funding to obligate, or fulfill authority to spend. In 1974, the Congressional Budget and Impoundment Control Act was passed. As explained in Chapter 2, this Act, and its predecessor proposals, never contemplated eliminating the authorization-appropriations process, but rather sought to add another layer, in the form of Congressional budgeting, to coordinate it (Schick 1984, 41-42).

There are eight budgetary areas which the initial budget law of 1974 affected. These areas were:

1. budget coverage
2. budget timetable
3. budget resolutions
4. spending allocations
5. enforcement procedures
6. reconciliation
7. authorization and appropriations
8. budget information and resources (Keith 1986, 10-14)

Gramm-Rudman changed a number of these areas. First, the measure changed the definition, or coverage, of the Federal budget for purposes of calculating the size of the deficit to include all off-budget entities within the totals of the President's budget and the Congressional budget resolution and the receipts and disbursements of the Federal Financing Bank relating to loan obligations of any other Federal agency in the accounts of that agency (off-budget entities were defined to exclude Government Sponsored Enterprises). In FY 1985, these entities accounted for \$9 billion in outlays but these outlays were projected to decline to \$1 billion in FY87. Although excluded from prior budget totals, information about these entity activities were regularly included in past Presidential budgets. Social Security was moved off-budget in FY 86 as opposed to FY 90 as scheduled under the 1983 amendments. However, the trust fund totals were considered for purposes of determining whether the budget targets had been met. Since the Social Security Trust Fund was running a

surplus, this move made the budget targets easier to meet.

Second, budget resolutions also were required to carry information regarding credit obligations, but while a change in the law, this was already recent practice in both the Congress and the White House. These credit totals were not counted in calculating the final budget deficit, also making the budget targets easier to meet (Keith 1985, 10).

Third, Gramm-Rudman required the President to submit his budget by the first Monday after January 3rd; the House and Senate committees were to provide information to the budget committees by February 25th; Congress was to adopt the first and only budget resolution by April 15 and was to have completed legislative action on reconciliation by June 15; the House appropriations committees were to report all regular appropriations bills by June 10 and complete action on them by June 30 (Keith 1986, 11). Thus the second budget resolution was eliminated, and reconciliation practices were added to the first resolution, essentially according with recent practice (Keith 1986, 18-19, 27).

Fourth, Gramm-Rudman built on the point-of-order enforcement procedures installed under the 1974 Act. In particular, certain point-of-order provisions, namely those on the prescribed budget totals, were added and scheduled to expire after 1991 (Keith 1986, 31-36).

Of course the main change of Gramm-Rudman came with its addition of deficit targets, beginning with \$171.9 billion in

FY86 and declining by \$36 billion every year until a zero deficit by FY91 (Keith 1986, 27-28).

Gramm-Rudman's novelty lies not in its targets, or its broad concept, but its enforcement mechanism and its highly detailed and formal procedures for making cuts in the event of noncompliance. Although Treasury reports the actual size of the deficit after it has occurred, this is too late to do anything about the budget shortfall, so the sequester trigger relied on outlay and revenue estimates rather than actual numbers.

Because such estimates contain many uncertainties, such as economic conditions, policy changes and spend-out rates, and were subject to political manipulation, the law spelled out as much as possible the assumptions to be used in making estimates - e.g. the continuation of current law with respect to revenues and certain spending programs, including, with certain exceptions, the expiration of provisions of current law that had explicit termination dates and the assumption that federal agency appropriations would be equal to the previous year's level unless a regular appropriation, or a continuing resolution for the entire fiscal year has been enacted covering the program (Havens 1986, 11). Leeway was left to the estimators in their assumptions about the future condition of the economy, the effect of economic conditions on the budget, and the rate at which outlays would flow from a particular set of program policies and funding levels. Where

there were disagreements in final estimates, CBO and OMB estimates would be averaged and the official report would be submitted to the Comptroller General, the Chief Executive Officer of the General Accounting Office (GAO). GAO was to review this report and issue its own report which replicated and verified the CBO/OMB work, or change the estimates if it found errors. It was the GAO report which actually set off the sequester trigger (Havens 1986, 11-12).

Since fiscal 1986 was already well underway when Gramm-Rudman was passed, and Congress did not want the first year of cuts to be too severe, the 1986 sequester was modified. For that year, the excess deficit was to be 7/12ths of the amount estimated by the agencies and it could not, in any event, exceed \$11.7 billion, which was 7/12ths of what was then expected to be an excess deficit of \$20 billion (i.e. the 1986 target was \$171.9 billion while the actual deficit was expected to be in the vicinity of \$190 to \$195 billion). One author interprets this to mean that Congress wanted a meaningful test of the procedure but also wanted to ensure that the automatic reductions would only be of moderate size (Havens 1986, 12).

Coming up with a deficit estimate is one thing, but allocating cuts to be made to meet that deficit target is another. The rules governing allocation of cuts were very specific and consisted of the following:

1. Half of the cuts were to come from defense and half from

all other spending, with certain exceptions.

2. Some programs - Social Security, food stamps, AFDC, foreign military sales trust fund, etc. - were exempt from the sequester. 3. Outlays from previously obligated funds were exempt from the sequester.

4. Certain "prior legal obligations" such as deposit insurance programs of Federal Deposit Insurance Corporation (FDIC) and Federal Savings and Loan Insurance Corporation (FSLIC) were exempt from the sequester.

5. Certain programs, designated automatic spending increases (ASI) - for example, the Civil Service Retirement System - could be reduced only by reducing Cost-of-Living-Adjustments (COLAs).

6. Certain programs had special reduction rules in the event of a sequester. For example, Medicare could be reduced only by 1% in 1986, 2% in future years if a sequester was necessary.

7. Any program not covered by the rules above was to be reduced by a uniform percentage amount, but defense spending was treated differently from nondefense.

8. For exempt programs, the administrative expense portion was not protected. Thus Social Security payments could not be cut, but Social Security Administration expenses could be.

The effect of these rules was to exempt two-thirds of the budget explicitly, and through the ASI and special rules programs, another 15% effectively. Only 20% of the 1986

budget was subject to uniform cuts, consisting disproportionately of administrative expense (Havens 1986, 13-14).

While the objective of the Act was to reduce outlays, the federal financial management system does not generally subject such outlays to direct control. To reduce outlays, one must reduce the "budgetary resources" which underlie them, namely the authority to incur obligations. Thus the "sequester" actually referred to the cancellation of budgetary authority which led to outlays. Because it often takes a considerable amount of time for obligations to turn into outlays, the obligation base in any given year is usually considerably larger than the amount of outlays in that year. Thus to achieve the uniform outlay reductions prescribed in the law, the sequester of obligational authority actually had to be much bigger (Havens 1986, 16).

Once the report by GAO was issued, the President would issue an order to agencies to cut authority as directed, agencies would comply and, after 1986, the order would take interim effect - i.e. amounts to be sequestered would be withheld from obligation on that date but not permanently cancelled. 45 days would then be given to Congress and the President to develop an alternative plan during which OMB, CBO and GAO would be closely monitoring changes in policy and other factors. A revised report would be issued, a final Presidential order would follow, and that order would become

effective immediately at the start of the fiscal year (it was actually issued 10/15) (Havens 1986, 18-21).

The Debate Over Passage of Gramm-Rudman

As already mentioned, the Gramm-Rudman act was not a completely new idea. Indeed, the motion to recommit the Kennedy tax cut was conceptually similar to Gramm-Rudman in the way it which it set budgetary targets (spending in that case, rather than deficit targets), and in providing for enforcement penalties if those targets were not met (in that case, the repeal of the tax cut).

In addition, Senator Phil Gramm himself had been pushing budgetary restraint of some sort since his election to the House of Representatives as a Democrat in 1978, and with considerable success. Arriving to take his seat in 1979, Gramm introduced an amendment to a debt-ceiling extension requiring an immediate balancing of the budget; cosponsored by James Jones and Trent Lott, it lost by 2 votes on the floor. In 1981, Gramm cosponsored a bill with House Majority Leader Jim Wright, Democrat of Texas, and House Minority Whip Trent Lott, Republican of Mississippi, HR 1981, requiring the budget to be balanced in one year and providing for points of orders on the floor for spending bills brought in over target (Schier 1986, 109-110).

Gramm-Rudman was not a typical bill in its genesis: there were no formal committee hearings to hash out the legislation, and much of the debate took place behind closed doors in

conference. But there was fairly extensive public debate on the floor of the Senate, and several committees did hold hearings on the issue even though they had no formal power to affect matters.

There is no question that the primary attraction of Gramm-Rudman was its simple promise of doing something - now - about the deficit. Unlike the debate over the Revenue Act of 1964, there was relatively little concern about negative countercyclical effects and a great deal of stated concern about continuous large excesses of expenditures over outlays.

There was some theorizing about the reasons that deficits were bad for the economy, but many of the stated fears about deficit spending lacked causal detail and were visceral, or political, in their nature. Senator Alfonse D'Amato's opening comments before the Joint Economic Committee provide some of the flavor:

Now, I'm not suggesting that the Gramm-Rudman proposal, of which I am a cosponsor, may not have some faults. But I do believe that we simply cannot continue to do business as usual because the business of the people has not been done.

We lack the political will in Congress to make the necessary deficit reductions, to make the necessary cuts that are going to reduce the deficits. We just simply don't do it, and I believe that we have to have that kind of discipline which the Gramm-Rudman proposal mandates, which states that we acknowledge that there is a deficit and that we are going to have to cut these deficits evenly over the next 5 years.

...I think it's a kind of discipline that the American people have been employing in their own homes and businesses for years. Can we, the Congress, continue to shirk our duty? I don't think so.

I believe, and I'm anxious to hear our expert witnesses here, Mr. Chairman, that if we get to the business of reducing these deficits, and the economic community both here in this Nation and throughout the world see that we are serious, and that we reduce these deficits the first year and the second year, that there can't help but be a corresponding reduction in interest rates; that we're going to see more economic growth. That's the kind of thing we're after. I don't want to see us return to the dark days of 1981 when we had soaring interest rates and inflation rates beyond our control. I think the prudent action is to say let's deal with it while we have a relatively strong economy (U.S. Congress, Joint Economic Committee 1985, 3)"

How the fears had changed since 1963. No longer was the Great Depression the great threat. Instead, a Senator's fears were focused on inflation, on the deteriorating balance of trade, on what now seemed to be habitual deficits, and on high interest rates.

How these deficits were linked to economic decline was not entirely clear in most of the Representatives' and Senators' statements. D'Amato focused on the supposed benefit of lower deficits, namely lower interest rates. His underlying theory of interest rate causation is not very explicit, though it seems to be the traditional crowding out hypothesis, namely that private savings are commandeered to finance the public deficit and, with a fixed supply of funds, interest rates cannot help but adjust upward.

There is no question that fear of deficits drove the debate behind Gramm-Rudman. However, the economic arguments were generally quite sketchy. Senator Melcher made such an argument in a folksy sort of way:

We have incubated this egg and it has hatched. It turns

out to be a turkey - a turkey economy, with huge deficits dragging down the economy. It is not a turkey that you can give any thanks for. It is not one you want to eat at Thanksgiving - not this year; probably not next year. Because this economy is sinking and it is sinking harshly.

A great deal of the responsibility of the sinking economy goes directly to the deficit... (Congressional Record 10/5/85, S12270-S12271).

Senator Domenici was not quite as folksy, but was equally dire, and equally vague, about the consequences of large deficits: "I think we are here today because we are living on borrowed money and borrowed time. I do not think there is anybody that has looked at the situation in our country that would not conclude that the current Federal deficit and the current rate of borrowing by the Federal Government has reached a level that it is just a matter of time until this borrowing yields something that none of us will like (Congressional Record 10/5/85, S12752)."

Many of the arguments offered had more specificity, but were also more traditional, almost antediluvian, in their flavor. A plea offered by Congressman Rogers is exemplary:

Mr. Speaker, the reason I became an original cosponsor of the Emergency Deficit Control Act mainly is because of the disastrous effects that the borrowed money our Federal deficit is causing to our industry in this Nation. We are losing our jobs and our plants and our crafts offshore. If you have any doubts about the disastrous effects of bringing in that gold and silver from offshore, look at Spain in the 15th and 16th centuries. Before Spain put \$2 on the dark horse named Christopher Columbus in 1492, Spain was the backwater of the old Roman Empire. But with the gold and silver from this New World flooding into Spain, her dollar became highly inflated, her currency was completely out of kilter. Spain lost her industry, lost her crafts. She became a hull of a nation. And when the gold and silver

from offshore played out, Spain crashed, not to be heard of again.

Those who do not read history are doomed to repeat history is the preaching we have heard. America must control this offshore borrowing caused by a big Federal deficit. If we do not, we may very well be the Spain of the 20th century (Congressional Record 10/7/85, H8281-H8282)."

Although inflation had moderated and deficits had vastly increased during the 1980's, Rogers was arguing that deficits and inflation were firmly linked. Although there are theories to support such links, Keynesianism being one such theory, Rogers appealed to a more primal fiscal conservatism which saw debt, particularly foreign debt, as loose and bad.

An exchange between Pursell and Mack on the House floor dredged up another old anti-deficit chestnut, namely the analogy between personal and government debt.

Mr. PURSELL: ...Is the gentleman suggesting that maybe if we took our budget with our great deficit and our past historical track record of borrowing almost 20 percent of our revenues, that if we took that to the average banker today that we would be denied any additional credit, like the small businessman is denied his because historically he has not been responsible fiscally?

Are we any different than the family or the small businessman or corporation?

Mr. MACK: I think you are making my point for me. I do not think that we are... (Congressional Record 10/8/85, H8498) "

To be sure, there was abbreviated reference to some of the economic arguments surrounding debts and deficits then prevalent such as the twin deficits argument. Senator McClure referred to: "economic collapse in this country if the trend of skyrocketing deficits is not curtailed. We spend time

debating the strong dollar, the trade imbalance and the farm crisis which are the direct result of a lack of fiscal responsibility. Yet we have been unwilling to come to grips with the real problem - deficit spending (Congressional Record 10/6/85, S12823)."

And Representative McClure argued that Gramm-Rudman, by reducing the deficit, would "provide long term stability to financial markets, help reduce our swollen trade deficit, and allow the American people and our children the economic opportunity they deserve (Congressional Record 10/6/85, H8279)."

But in general, conservatives and liberals alike expressed alarm at the deficit without specifying the source of that alarm. Many of these statements, including some of those quoted above, are tinged with panic. No less a liberal than Senator Kennedy expressed his support for Gramm-Rudman because, "We are all crying fire in the overcrowded theater of the Federal deficit. We cannot continue to debate endlessly which fire extinguisher to use while the fire itself rages on (Congressional Record 10/9/85, S12961)."

And, unlike the Kennedy debate, where economic theory and advice was at least referred to, even self-servingly, this time there were undercurrents of rejection of economic advice altogether. Congressman Mack, during House Budget Committee hearings on the measure, essentially stated that economic advice was not, in the end, particularly relevant to political

choices.

You [referring to Charles Schultze, whom he was just questioning] made the statement a minute ago that the economists aren't good for many things. I happen to think economists are good for a lot of things, but I think the difficulty that you and I have in communicating is that you can advise, you can make recommendations; you don't have to make the tough choices. We do have to do that, eventually, and I think what we are saying here...is the problem has become so bad and both groups have become so inept at dealing with problem that there has got to be something better than year after year saying, well, we just didn't deal with it this year, but we will get it next year when the budget resolution comes up (U.S. Congress, House Committee on the Budget 1985, 16).

And Senator Packwood, debating shortly before the final compromise on the bill was to be voted on in the Senate, more definitively rejected economic advice.

I am tired of economic theories. I have been on the Finance Committee for 10 years and the Banking Committee for 8 years. I think I have heard all of the great economists in this country and the world testify. Some have had Nobel prizes in economics or have headed some of our great university economics departments. They have all testified. They are nice people.

The Senator from South Carolina can remember that there was one who would come in every January and tell us on the committees what would happen in the ensuing year. I had read what he had said in the previous January as to what was going to happen. It had not happened. When he finished his testimony, I said, "Professor, let me indicate what you said last year" and read his testimony.

It did not happen. Can you explain why it did not happen?

Yes.

Why did it not happen?

Unforeseen intervening circumstances.

Is there any chance that in the coming year there can be

unforeseen intervening circumstances?

No. We have a handle on it now.

Well, the profession of economics is a very respected profession. They just do not agree.

I am convinced, with the sponsors of this bill, that somewhere you pay the piper. You cannot go on with \$200 billion deficits. I do not care what you argue about defense spending and other spending, you cannot go on with \$200 billion deficits year after year without adverse consequences. Maybe the people who buy Government bonds will quit buying them.

Maybe inflation will come back again. What was it 4 years ago - 15 percent and interest rates at 20 percent?

Do you think that cannot happen in this country again?

Of course it can happen. It is more likely to happen with \$200 billion deficits than with reduced deficits (Congressional Record 12/11/85, S17383)."

Packwood's frustration was perhaps understandable, given that continuous and large deficits had not yet resulted in the sorts of economic collapse that Congressional representatives intuitively expected. Not that economists had necessarily been predicting such a collapse, but they were clearly uncertain of what the future would hold. Herbert Stein made clear the uncertainty which economists themselves faced: "The quantitative relation between the size of the deficit and the level of interest rates is a very difficult thing and perhaps Mr. Heller knows, but I don't. In fact, CBO did produce a list of about 35 econometric studies of the relationship between the deficit and the interest rate and they ranged over the whole lot, not only in degree but whether they were positive or negative. So I don't know which economist you

want to listen to (U.S. Congress, Joint Economic Committee 1985, 32)."

Indeed, one senses that perhaps the greatest fear was political: deficits were being perceived by Congressmen as an electoral threat. If Congress did not act, perhaps the people would.

For this reason, the greatest appeal of Gramm-Rudman, and a theme returned to again and again by its proponents, was that it was action to reduce the deficit. It was not clear whether Gramm-Rudman would really be effective in its mission, or whether its side effects would overwhelm its intended direct effects, and most people admitted as much. All of those uncertainties were of no great importance. The time had come for action.

[T]he reason why this has spread like a firestorm through this city is not because of the great brilliance of the drafters of this amendment. I would like to say that, but, of course, it is not so. The reason this has spread like a firestorm and why the public is now paying attention to it is that all of a sudden people are saying, "Good Lord, they are talking about raising the debt to \$2 trillion." And there is something dramatic about that. It is as dramatic as the case of the man who climbs the twin towers in New York and the entire country rivets its attention on that event, or the tragic events in Mexico [referring to the Mexico City earthquake which had just occurred] where the entire world rivets its attention on the plight of a young boy who may be saved this morning. People get their attention riveted by very interesting events. And the sponsors of this assumed that when the Senate was confronted the [sic] \$2 trillion figure we would suddenly be riveted on it. The American people would be riveted on it.

To those who would like to delay this for a few weeks, I must say that once that riveting is gone we will have lost the opportunity to make a responsible change (Congressional Record 10/5/85, S12695)."

Such were the sentiments expressed by Senator Rudman himself. Rudman's statement is particularly interesting for a number of reasons, not least of which is that it comes from one of the principal cosponsors. On this occasion and on others, Rudman admitted that the idea was on its face a haphazard one, but one whose time had come.

Rudman also admitted here the importance of the politics. The deficit was a bad thing with presumably bad consequences. Yet there seemed to be little resolve to close that deficit, by the Congress, by the President, or by the American people. Gramm-Rudman was a vehicle for doing something about ameliorating a predicament that everyone knew was serious yet nobody seemed to care enough to do something about. Thus the measure would "rivet" people on the deficit.

The people's attention was so short that action had to be taken while the atmosphere was one of panic. If the moment passed, so would the time for action. Senator Melcher made just this sort of analysis:

[Gramm-Rudman] involves both the President and the Congress. It would draw public attention. The effect of this would be to draw public attention to both sides of a confrontation between these two branches of Government and, Mr. President, would perhaps bring out grassroots demands for corrective actions to reduce the deficits (Congressional Record 10/5/85, S12720-S12721).

The problem was that a reduction in deficits either required less spending, more taxing, or both. And fundamentally, there was deadlock on the direction that either policy should take. The frustration with this deadlock

was captured in Senator Hart's statement quoted at the beginning of this chapter. The old divisions between those favoring a small, less active state were up against those who favored a larger, more active state. Except the debate did not really remain in that realm and hence could not be resolved directly. Instead discussion shifted to the issue in the abstract: the budget rules, the technicalities, the method of estimating the deficit, and other arcane issues.

Some sense of the old fault lines could be heard in the positions taken by proponents and opponents of the measure. Many of the supporters of Gramm-Rudman believed and hoped that the amendment would reduce spending, pure and simple. Consider the exchange between Senators Rudman and Mitchell on the issue:

Mr. RUDMAN:...It is not just a problem with the President. The American people do not want any of their programs cut. But at the same time, if you read the polls, they do not want to pay higher taxes.

What I am saying to the Senator is let us all make choices, including the people we represent. I have gone back to the people of New Hampshire and said to the people of New Hampshire, you cannot have it both ways. I am saying the only way to highlight this is to have a forcing mechanism that finally points out that unless you pay for it, I say to the Senator from Maine, you are not going to get it.

Mr. MITCHELL: I say to the Senator I do not disagree with what he has said, but the problem is he is doing it in a way that makes one element in the solution which is currently extremely difficult to achieve virtually impossible to achieve. He is institutionalizing this in a way that makes it unlikely in the extreme that anyone is going to propose or deal with the problem of revenues. So that even the three simple mechanisms I have described here - the cigarette tax, the corporate minimum tax, the individual minimum tax - will not be possible if we

proceed down this line - if we are just going to go through a forcing mechanism that forces a partial solution to the problem and causes some drastic changes (Congressional Record 10/5/85, S12716)."

Rudman was clearly straddling the fence on whether the bill's passage would end up reducing spending or raise taxes. But Mitchell interpreted the amendment as encouraging spending cuts as indeed it probably would given that inaction would result in automatic sequesters rather than revenue increases.

House Republicans, passively observing the action in the Senate, were more committal in their interpretation that Gramm-Rudman was a spending reduction measure.

Mr. WALKER: ...the problem with deficits is a spending problem. It is not, as many of the spenders in this body would like us to believe, a conglomerate of problems, too little taxes, too much defense and all this. It is a spending problem, pure and simple, because what we know at the present time is that in the last 5 to 6 years we have seen the Federal spending as a percentage of the gross national product go up from 20 percent to 25 percent.

....
...the Gramm-Mack proposal...is the first real attempt that we have had around here in a number of years, the first attempt at discipline, the first attempt with teeth to control that deficit problem and say that we are not going to continue to expand it, that we are going to begin a process of contraction, that we are going to start with the deficit level that we have determined for this year and we are going to steadily ratchet downward deficits until we get to zero in 1991 (Congressional Record 10/7/85, H8341)."

Mr. GINGRICH:...I think what we now have with the Gramm-Mack proposal is sort of put up or shut up time. Now we have in the Gramm-Mack proposal a very specific, very clear program which, when signed into law, would require the President and the Congress to bring the deficit down for 5 straight years by controlling [sic] spending, so that at the end of those 5 years we would have a balanced budget.

....

The result is...that on the Democratic side of the aisle we promptly today saw liberal after liberal get up who have been laughing at Reagan's deficits, who had enjoyed poking fun at President Reagan, suddenly faced with a real proposal that would really control spending, they suddenly found all sorts of excuses (Congressional Record 10/7/85, H8342)."

A colloquy between Mack and Pursell fleshed out the concepts above a bit more:

Mr. MACK: ...It is interesting how we have in the past allowed spending to automatically increase, how we have allowed tax revenues to automatically increase, and it is about time we changed the pattern that we put ourselves into an automatic reduction in spending.

.....
Mr. PURSELL: On the gentleman's earlier comment here, Warren T. Brooks today said in a syndicated column, he is an economist, that:

"Americans should already know that tax increases won't cut the deficit, only spending cuts will. The best proof is what has happened during this fiscal year just ended. Through the last 11 months of fiscal year 1985, Federal revenues have risen 10.4 percent, one of the strongest rises in our country. Our economic recovery because of our reduction of tax rates have started to stimulate the job market and new growth. But Federal spending also soared by 9.2 percent, nearly double the fiscal year 1984, which was the rate of 5.4 percent."

I am just suggesting the gentleman is absolutely right that spending levels are still on the increase (Congressional Record 10/5/85, H8499-H8500).

Here is the Leviathan hypothesis in its purest form. Tax revenue increases automatically and spending increases automatically with it. In a growing economy, one would expect such a result, but there are two elements which convert such empirical fact into support for Leviathan. One element is the growth rates for the respective elements and the decomposition of those growth rates. If spending is growing faster than tax

revenue, or if the revenues are being generated by ever increasing rates of effective taxation, then the State can be said to be expropriating an increasingly large share of private resources.

Whether such a result is bad depends on many things, including ethical values, but a second element of the conservative critique being articulated here is the notion that state activity by definition impinges on private activity. Thus the state will spend all the resources at its disposal and in getting those resources will sap private initiative and lead to less output. Cut down the amount of resources available to the state and the state will spend less, get less from the private sector, and be less of a drag on private activity.

Senator Gramm was far more explicit in his vision of the bill as a final plank in the Reagan platform:

We promised we would cut taxes and provide incentives for people to work, save and invest. We have and the people have.

We promised we would save Social Security, and we have. We promised we would rebuild national defense, and we have.

But there is one promise we made that we have not delivered on and that promise was to balance the budget. This program we are considering today sets into place the mechanism to fulfill that promise.

This, in fact, completes the Reagan program by setting up a mechanism to achieve that final goal.

We got here because in 1981 we adopted a 3-year plan to put the Federal Government on a budget. The first year Congress delivered 90 percent of the savings it promised. The second year only 40 percent. The third year we

achieved no savings whatsoever. In the fourth year of the Reagan program, revenues grew by over 10 percent because of the explosion of economic activities, but Federal spending grew by 11 percent and the deficit grew.

Last year revenues again grew by over 10 percent, but spending grew by 12 1/2 percent. The budget process failed.

We introduced the bill to deal with that problem.

This program is based on a procedure that is now used more or less in 43 States to meet legislative and constitutional prohibitions against deficits."

....
Before going on, I want to make a point that my colleague from New Hampshire often makes. There has been too much focus on the automatic cuts and too little discussion about the process that we are putting into effect. The automatic cuts are important - they are the disciplining agent - but those automatic cuts after this first year are going to occur only if we fail to do our job.

....
The American people support a strong defense. And as long as we are efficient in providing it, they are going to support it. This bill is going to force us to pay for defense. It is going to force us to set high standards, including high standards on defense. But I believe the American people will pay for defense and they will pay for veterans' programs.

There are programs that will not be funded under this proposal. There are bills today that spend money on benefits that the American people will not voluntarily pay for and, as a result, when we are forced to set priorities, some programs will be terminated.

Defense and the fundamental programs that are broadly supported by the American people will do well under this budget.

....
Finally, Mr. President, I want to talk about where we go from here. There has been a lot of discussion about what this bill means. Does it mean controlling spending? Does it mean raising taxes? The best analogy I have been able to come up with is the analogy about putting fat in the fire.

This bill puts the fat in the fire.

We can either rend the lard from that fat, which is my goal by controlling spending, or we can put out the fire by raising taxes.

This bill does not dictate decisions, but it does force decisions (Congressional Record 12/11/85, S17388-S17389)."

It was true that the amendment did not foreclose the possibility of raising taxes to close the deficit, but given the political climate, and also given the structure of the bill itself, which split cuts between defense and non-defense expenditures, and exempted many large and popular programs, Gramm's prediction that discretionary spending would likely bear the brunt of deficit reduction and that many of these cuts would be concentrated among relatively unpopular programs seemed, at the time, to be a safe bet.

Senator Hart believed Gramm's analysis in opposing the program. Unlike Gramm, Hart had a more expansive and positive view of state power and he believed that the amendment would foolishly hamper that role:

Gramm-Rudman is the bitter medicine we are now told we must take to cure the disease called 'supply side economics' - but it is hemlock. It is based on an economics better suited to setting tolls on a bridge than solving the economic challenge the nation faces.

For 5 years, if all goes according to plan, the future of this Nation will be downsized, run by a computer, and reduced to a smudgy column of numbers with a zero at its end.

Mr. President, we all agree on the urgent need for deficit reductions. The deficit has overvalued our dollar, making us a second-class competitor in trade. The deficit boosts real interest rates, keeping us from investing in tomorrow's workers, engineers, factories, and innovations.

Reducing the deficit is a national imperative. And if the sole role of Government were the production of an orderly ledger, who could object? Gramm-Rudman may help

us slay the deficit dragon, but it contradicts any larger, more positive vision we might have for our Nation's future.

The Senator from Colorado believes that more is expected from a Government obligated to promote a prosperous and civilized society.

Does Gramm-Rudman direct the budget toward this goal? In fact, just the opposite.

Will it help us modernize our economy? Gramm-Rudman virtually ensures an inadequately trained American work force.

Will it make us more competitive in trade? Gramm-Rudman virtually guarantees we will take no actions to promote exports or expand our markets abroad.

Will it enable us to invest in innovation and the quality of life for our children? Gramm-Rudman virtually seals the fate of student loans and Federal support for education.

The fact is, if our goal is a competitive economy, if our goal is national excellence, if our goal is investments in our future, then all budget cuts are not equal. But that logic is lost on Gramm-Rudman. To paraphrase Anatole France, this law, in its majestic equality, provides that we will cut equally from muscle and fat, from powerless and powerful, from productive minds as well as comfortable constituencies (Congressional Record 12/11/85, S17395)."

Senator Roth, however, had a different read on the bill's ultimate political dynamics. He opposed the bill because he believed that the weaker supporting strut underlying deficit reduction was taxes, not spending, and thus the enforcement provisions would push on that weaker strut, requiring a rise in taxes to support existing spending:

Mr. President, reluctantly, I have had to withdraw my support for the conference report on Gramm-Rudman-Hollings. I remain a strong supporter of the enforced deficit reduction concept, but I am not - and never have been - a supporter of enforced tax increases. As this amendment has developed through the

conference process, that is just what it has become: 'The Mandatory Tax Increase Act for 1986.'

....

By exempting programs that benefit many millions of Americans, their representatives will have no incentive to make a realistic congressional budget. In fact, they will actually fare better if no budget is adopted, since they are protected under any sequester order issued by the President. At the same time, programs that have not been exempt from a sequester order - the programs that benefit the average American and provide the basic services and functions undertaken by Government - are left to bear the brunt of the burden.

....

What we have done is to create a ready-made coalition for massive tax increases. Those whose programs are exempt from cuts will be joined - in desperation - by those whose programs are devastated by the impact of the new Gramm-Rudman-Hollings to support new tax measures that will meet the statutory deficit limits (Congressional Record 12/11/85, S17418-S17419)."

While issues of proper levels of taxing and spending were the central issue in one sense, Senator Hart was right that these issues had little to do whether Gramm-Rudman would, in fact, pass. The appearance of doing something about the deficit was the driving force behind the amendment and the amendment itself did nothing but set targets for the deficit and provide for enforcement actions if those targets were not met.

Thus discussion centered on technical and procedural points. The concerns centered on: separation of powers; programs covered by the amendment and those exempted from them; revenue estimates; effectiveness of the amendment in achieving its goal; and discretion to act, particularly in times of war and recession. Representative Gray framed the issues in his opening statement at the House Budget Committee

hearings:

Despite the attractiveness of Gramm-Rudman, there are some questions that need to be answered.

Does the proposal create an incentive for the President to veto congressional action to reduce the deficit, especially if such action also includes revenue increases?

Does the proposal give the President broad authority to pick and choose among which programs to cut and to thwart the will of Congress?

Under the proposal, can the President avoid making reductions of equal proportion among all programs subject to reduction?

What programs are to be reduced under the proposal?

What implications does this proposal have on the delicate balance of powers between the legislative and executive branches of government (U.S. Congress, House Budget Committee, 1985, 1-2)?

The arguments over separation of powers was quite simple. Some felt that the President was given too much power and were concerned by this derogation, while others were either unconcerned or even pleased with such a derogation, or felt that it did not exist in a practical sense.

Representative Boxer put the case most simply during House Budget hearings: "I don't like Gramm-Rudman because I think it's giving away our powers. It's as simple as that (U.S. Congress, House Budget Committee 1985, 25)."

Representative Bonior elaborated a bit on this position:

Mr. Speaker, constitutional wimps are at it again.

First, some abandoned the duties given us by the Founding Fathers over the conduct of foreign policy. Now some want to pass the buck on the deficit as well.

The President is to be given unprecedented control over

the Federal budget. This House, the supreme body of the people, was not elected to cut press releases while leaving it to someone else to cut the budget.

How can we return to the people and say that we did not have the guts to face one of the preeminent tasks of our time. That we did not have the guts to live up to the responsibilities given to us by our Constitution [sic] (Congressional Record 10/7/85, H8280)."

Although this lament about the cession of Congressional prerogative was raised quite often, it seemed to have little practical import. One response to this argument, made by Gramm, was that the President was only being given "ministerial" power -that is, the President was merely carrying out the intent of Congress as specified in legislation.

But in point of fact, the main concern was not so much with whether the President was gaining new powers or not, but with uncertainty over how the President would exercise that power. Congressmen Mack, Gingrich, and Senator Gramm and others expected that spending would be cut and cut mainly from domestic programs. Senator Hart and others believed the same thing. One set of people believed that outcome to be a good thing, the other set, a bad thing, and they voted accordingly. On the other side, Senator Roth was concerned that the pressures would instead build for a tax increase, and opposed the bill because he disliked that turn of events.

And much of the concern over likely Presidential action was not even so broad. Social Security had been exempted from the bill because of its political popularity. Several

congressman raised that exemption in a defense of veterans' benefits:

Mr. MONTGOMERY: ...If any balanced budget plan is to succeed, Mr. Speaker, no program can be exempt from cuts that may have to be made. All benefit programs must be treated equally. I'm not opposed to making an exception for Social Security beneficiaries, but if we do, we will have to make an exception for veterans as well (Congressional Record 10/7/85, H8277)."

Mr. APPLEGATE:...Social Security would get COLA's and disabled veterans would not. Don't the men who fought our wars deserve the same consideration as citizens who earned Social Security?

....
...We will have some hard choices in dealing with the budget. I just hope when we make those choices, we do so knowing what the results will be. I am not willing to balance the budget on the backs of our disabled veterans (Congressional Record 10/7/85, H8279)."

Defense spending was another big concern. The only overt active lobbying from the Administration came from the Defense Department which saw the real possibility of its ox being gored. And Senator Jeremiah Denton, an arch-conservative, and original supporter of the measure, turned against it precisely because of that possibility.

The measure passed the Senate by 75 to 24, with this Senator from Alabama being persuaded...to keep his powder dry until a probably improved bill came from the conference. I now bitterly regret my vote...

....
...I firmly believe that the Secretary of State, the Secretary of Defense, and the then National Security Adviser to the President, Robert C. McFarlane, were correct to oppose the measure on national security grounds.

....
Yes, we should balance the budget, but not on the back of national defense. All the polls in Rome after the fall of Rome would have agreed with that statement, retrospectively but too late. We are not here only to read polls. We are here to serve as the Constitution requires. And the constitution requires that we provide

for the common defense first, that we promote the general welfare second (Congressional Record 12/11/85, S17411-S17412)."

Denton offered a motion to recommit the bill which would have allowed the President to exempt defense (category 050) provided the President certified that sequestration would impair national security. Such authority could be overruled by a majority vote of both Houses of Congress (Congressional Record 12/11/85, S17417). The motion was ultimately rejected.

Gramm-Rudman was similar to the Kennedy Tax Cut in that the perception was that since the train was unstoppable, one should seek instead to steer the craft in the right direction. Just as the tax cut was assumed to be inevitable, with only the allocation of tax cuts to be determined, here it was assumed that the sequester was inevitable, with only the spending cuts to be determined.

Hence the speeches in favor of protecting or exempting one program or another; hence the long conference negotiations over exemptions from sequester which ended up removing two-thirds of the budget from consideration; hence the large number of amendments offered on the Senate floor which expressed, among other things, "the sense of the Senate that any funding reductions or sequestering of controllable expenditures implemented by the various Federal agencies as a result of this act shall be made uniformly and shall not disproportionately be made in the funding of programs targeted for rural and less populated areas." (offered by Senator

Pressler, Republican of North Dakota, and agreed to without a vote) (Congressional Record 10/9/85, S12880-12881); which would allow Social Security to be protected by an additional budget point of order (offered by Senator Hawkins, Republican of Florida, and agreed to by voice vote) (Congressional Record 10/9/85, S12882-S12886); which redefined Social Security COLA's and hence further protect certain recipients from the sequester (offered by Senator Dodd, Democrat of Connecticut, and agreed to without a vote) (Congressional Record 10/9/85, S12958-S12961); to put the Social Security Trust Fund back under the sequester (offered by Senator Boren, Democrat of Oklahoma as an attempt to scuttle the bill, and tabled by a vote of 71 to 27) (Congressional Record 10/10/85, S13053-S13059); to raise gasoline taxes (offered by Senator Bradley, Democrat of New Jersey, and tabled 90-9) (Congressional Record 10/10/85, S13063-S13066); to include agricultural price supports under the sequester (offered by Senator Moynihan, Democrat of New York, and tabled 81-16) (Congressional Record 10/10/85, S13069-S13072); to include the Commodity Credit Corporation and student loans under a sequestration order but not to subject to sequester individual contracts entered into prior to that order (offered by Senators Boren and Gramm and agreed to without a vote) (Congressional Record 10/10/85, S13077-S13083); and the Denton amendment mentioned above to allow the President to effectively exempt Defense programs from sequester.

There were concerns about the bill's countercyclical ramifications. But these concerns were not treated as a central issue. Instead, the reduction of discretionary fiscal authority was taken as a given and fiscal policy goals were given their carve-out just like any other special interest. Indeed, House Republicans interpreted it just this way:

Mr. MACK. In the Democratic alternative, the Rostenkowski plan, as I believe it is referred to. It is an escape clause based on unemployment.

Now, let us just assume, and here is how the formula works. If there are two consecutive months where the unemployment rate is 1 percent higher than it was 1 year ago, the whole thing is void.

Mr. CRAIG. Does it take into consideration seasonal adjustments?

Mr. MACK. There is no mention of that in the proposal.

But let us just assume they were for a second. I mean, that was a legitimate proposal there. Again what they developed is an escape clause based on a recessionary concept that says the employment level is the thing that you ought to set as the triggering mechanism.

But again, think of what I said. Two consecutive months where the unemployment rate was 1 percent higher than what it was year ago.

Now, let us just build a scenario here. Let us say that over the next year that we see a gradual reduction in the unemployment rate in the country from 7.1 percent, where it is today, to 6 percent by a year from now. What would happen under this proposal is that 1 year later if we were back to 7.1 percent, that would be a recession and therefore there is an escape clause to get out from under this whole proposal.

Mr. CRAIG. So the policy or the principal [sic] built within the Rostenkowski or the Democratic alternative is really back to where we have always been, is it not, that we spend and that we justify almost any activity in the economy as a reason to spend and the reason we do that is because the way to solve the problems in this Nation is to provide a Federal program.

I mean, I am kind of getting that sense.

The gentleman says that if unemployment bumps 1 percent up, that triggers their system, it says there is a recession and allows them to spend beyond the target levels as proposed within their package.

Mr. MACK. Absolutely, absolutely, and again just to close my remarks for this portion and I will be glad to yield to someone else, the gentleman started out by saying the American people have a great deal of faith. We say one thing, we do another.

All I am saying, it seems to me there are two clear alternatives here. Do you want to establish a goal certain? Do you really want to make the effort to get a balanced budget by 1991? Do you want to establish targets that you will really live with and stick to?

It is very simple, very clear, very across the board, or do you want to come up with kind of a mumbo-jumbo kind of shell game, here-today-gone-tomorrow type of thing, that says yes, our goal is \$161 billion the first year, but we are not real sure of what it is going to be in the second year, depending on the level of economic growth and what might happen with the unemployment rate (Congressional Record 10/6/85, H9875)."

There were concerns expressed about the ability to predict recessions in time to avoid a sequester and concerns about using the cash deficit rather than the full employment deficit. But these apprehensions were not enough to stop the bill. Lip-service was paid to suspending the amendment in times of war and recession and that was that.

Allan Schick has referred to the "fiscalization" of debate which has occurred with the advent of the Congressional budget process. By this he meant the fact that debates about policy were filtered through, and obscured by, debates about budget process (Schick 1990). Gramm-Rudman was perhaps the first full-flowering of this fiscalized debate.

Already mentioned is the tax and spend argument being transformed by a deficit target and sequester argument. In addition, much time was spent over arcane issues such as the appropriate revenue estimate to use (whether it would be an average of CBO and OMB's for example) and what the margin of error would be in specifying targets that would trigger sequester. The debate can be almost mind-numbing in its technicality. Two examples will suffice.

"Moynihan:...[The act requires OMB and CBO to] determine whether or not the resulting budget deficit is "statistically significant".

....
The Director of OMB and the Director of the Congressional Budget Office...are asked to decide whether a dollar sum is statistically significant. That is a nonsense (Congressional Record 10/7/85, S12822)."

Eagleton then offered amendment 773 which, as he explained, "adds to the reporting period in the bill the additional reporting dates of February 15 and May 1...[and adopts] an allowable deficit figure for fiscal year 1986 of \$175 billion plus a margin for statistical significance of 5 percent [lower than the 7% first year margin and \$180 billion figure in the current bill] (S13100). The amendment was tabled 46 to 43 with 11 not voting (Congressional Record 10/10/85, S13100-S13101).

These decisions, though technical, had potentially great import. A difference of 2% in determining whether a sequester was triggered amounted to \$3 billion on a \$144 billion trigger, a small, but not trivial amount. But because these

outcomes came about through technical mechanisms, the substance of the actions became entangled with the minutiae of the process. Policy decisions were obscured.

Senator John Glenn, opposing the amendment in the end, put many of the objections to Gramm-Rudman, technical and non-technical, together during the final Senate debate over passage:

Mr. President, I rise to oppose this bill....

....
No. 1, the bill is a formal admission that the Congress does not know how to balance the budget; that we simply do not have the guts to make the hard choices to bring our fiscal house into order.

....
Second, the bill takes one of the most important functions of Government, the allocation of our tax dollars, and places it almost entirely at the mercy of some unelected officials whose predictions will trigger the automatic spending cuts....

....
[Third,] this bill places naive faith in the science of economics. Economics is not that much of an exact science. Under this bill, billions of dollars can be excised from the budget if the Government's economic forecasts show that the budget will miss the Gramm-Rudman targets. I ask anybody he how often those forecasts by the Government have hit accurately.

....
The fourth point: The Gramm-Rudman-Hollings amendment locks fiscal policy in place for 5 years. This is one of the most amazing aspects of the bill. It says that all the fiscal policy planners in this country can go home and come back in 1991 when the bill expires. Perhaps they will be needed more than ever at that time, because fiscal policy will be in such disarray even before 1991 that drastic work will be necessary.

The Gramm-Rudman-Hollings proposal says, in effect, that we can simply point the ship of state in the right direction, then weld its wheel to the deck, and hope that 5 years later we will have reached our destination. Is this a way to make fiscal policy?

Fifth, the amendment plays havoc with our tax system. Governors and Mayors across the country will be forced to

raise taxes in order to stem the erosion of governmental services caused by the Gramm-Rudman cutbacks....

Sixth, the bill makes a mockery of the administration's economic program. The administration wants to spur the economy by cutting taxes, but it supports Gramm-Rudman, which will undoubtedly wind up increasing our taxes. What kind of policy is this (Congressional Record 12/11/85, S17404-S17405)?"

Glenn's position would not carry the day. But many of his sentiments had, in fact, already won out: the distrust of economic expertise, the frustration with seemingly irreconcilable public preferences, the resignation to an inability to make, or even debate about choosing between competing alternatives. Fiscal activism, dead by default at that time, was soundly rejected, but not singled out. In fact, all policy activism seemed to have been put on hold simply due to exhaustion.

CHAPTER 5: THE COALITIONS THAT WROUGHT KENNEDY'S TAX CUT AND GRAMM-RUDMAN - PARTIES AND REGIONS

Ultimately, after all the floor debate and parliamentary maneuvers had run their course, legislation was passed in both 1964 and 1985 which changed the course of fiscal history, for better or for worse. In the end both acts passed with relatively wide margins. The Kennedy tax cut bill passed the House by 271 votes to 155, and cleared the Senate by 77 to 21. The Conference report on the measure got an even larger majority in the House - 326 to 83 - and a similar margin in the Senate - 74 to 19. The closest floor vote of the whole process was on the Republican recommittal motion, where 199 voted to recommit and 226 voted not to recommit, thus allowing a floor vote to proceed. If one were to look only at the final votes, one would have assumed that the tax cut was a foregone conclusion.

Gramm-Rudman was not typical legislation and so the votes on it are a bit different from the Kennedy bill. The Act started life as an amendment to a debt limit bill, and its first vote was in the Senate, where it cleared by a 75 to 24 margin. Passage of HJRes 372, the debt limit increase with Gramm-Rudman attached, passed the Senate the next day by a slightly lower margin of 51 to 37. When a conference report finally emerged months later, the House voted to approve it by 271 to 154. The Senate cleared the conference report with a slightly larger margin than it had approved the original

legislation, i.e. by 61 to 31.

As far as party alignments, the Kennedy Tax Cut was clearly a Democratic bill at the outset, while Gramm-Rudman was a largely supported by Republicans, although it did have bipartisan sponsorship when Senator Ernest Hollings of South Carolina signed on. Both bills, however, were ultimately passed with significant support from both parties.

Despite some of the broad similarities in the final votes, the builders of coalitions in both cases faced somewhat different conditions and constraints than the other. The strength and distribution of the Democratic and Republican parties in the House and the Senate were quite different in 1964 as opposed to 1985.

Table 5-1 shows the relative strength of the two parties in the House and Senate during the two years in which the Kennedy Tax Cut and Gramm-Rudman were passed respectively. Democrats in both years dominated the House: Almost 3 in 5 House seats were held by Democrats in both 1964 and 1985, although there was a one percentage-point decline in that ratio between the two years. More strikingly, while two-thirds of the seats in the Senate were held by Democrats in 1964, Republicans controlled the body by a margin of 7 seats in 1985.

TABLE 5-1

CONGRESSIONAL PARTY ALIGNMENTS DURING THE PASSAGE OF...

	KENNEDY TAX CUT		GRAMM-RUDMAN			
	House	Senate	House	Senate	House Change	Senate Change
% Dem	59.4%	66.0%	58.6%	46.0%	-0.8%	-20%
% Rep	40.6%	33.0%	41.4%	53.0%	0.8%	20%
% Indep	0.0%	1.0%	0.0%	1.0%	0.0%	0%
TOTAL	100.0%	100.0%	100.0%	100.0%		

Thus party control of the House had changed little and that of the Senate had changed dramatically. However, the geographic distribution of that party control had changed somewhat, even in the House. Tables 5-2 and 5-3 show the control each party had on regional delegations in the House and Senate, in 1964 and 1985 respectively, while Tables 5-4 and 5-5 show the same figures broken out separately for each State. (The definitions of regions are detailed in a note to the tables). Tables 5-6 and 5-7 distribute these figures across regions and States in the House.

(NOTE TO THE NOTE TO THE FOLLOWING TABLES: Regions are defined as follows: The **BORDER** region consists of MARYLAND, MISSOURI, KENTUCKY, MISSOURI, OKLAHOMA, and WEST VIRGINIA; the **FARM** region consists of IOWA, KANSAS, NEBRASKA, NORTH DAKOTA, SOUTH DAKOTA, MINNESOTA and SOUTH DAKOTA; the **MID-ATLANTIC** region consists of DELAWARE, NEW JERSEY, NEW YORK, and PENNSYLVANIA; the **MIDWEST** region consists of MICHIGAN, OHIO, ILLINOIS, INDIANA, MICHIGAN, and WISCONSIN; the NEW ENGLAND region consists of CONNECTICUT, MASSACHUSETTS, MAINE, NEW HAMPSHIRE, RHODE ISLAND, and VERMONT; the **OUTER** region consists of HAWAII and ALASKA; the **PACIFIC** region consists of CALIFORNIA, OREGON and WASHINGTON; the **SOUTH** region consists of ALABAMA, ARKANSAS, FLORIDA, GEORGIA, LOUISIANA, MISSISSIPPI, NORTH CAROLINA, SOUTH CAROLINA, TENNESSEE, TEXAS and VIRGINIA; the **WEST-DESERT** region consists of ARIZONA, NEVADA and NEW MEXICO; the **WEST-MOUNTAIN** region consists of COLORADO, IDAHO, MONTANA, UTAH and WYOMING).

TABLE 5-2
OF HOUSE MEMBERS ...THIS PERCENT WERE AFFILIATED WITH
WHO WERE FROM THE FOLLOWING PARTIES IN...
THIS REGION...

	1964		1985		Change in Dem 64-85
	Dem	Rep	Dem	Rep	
-----	-----	-----	-----	-----	-----
BORDER	77.8%	22.2%	73.5%	26.5%	-4.3%
FARM	19.2%	80.8%	45.8%	54.2%	26.6%
MID-ATLANTIC	49.4%	50.6%	56.9%	43.1%	7.5%
MIDWEST	38.6%	61.4%	56.3%	43.8%	17.7%
NEW ENGLAND	56.0%	44.0%	66.7%	33.3%	10.7%
OUTER	100.0%	0.0%	66.7%	33.3%	-33.3%
PACIFIC	55.1%	44.9%	60.3%	39.7%	5.2%
SOUTH	89.6%	10.4%	62.9%	37.1%	-26.7%
WEST-DESERT	83.3%	16.7%	30.0%	70.0%	-53.3%
WEST-MOUNTAIN	45.5%	54.5%	28.6%	71.4%	-16.9%
TOTAL	59.4%	40.6%	58.6%	41.4%	-0.8%

TABLE 5-3**SENATE SEATS DISTRIBUTED BY PARTY, REGION, AND YEAR**

Region	1964 Dems	Rep	1985 Dems	Rep	64-85 Dem gain
BORDER	6	3	5	4	-1
FARM	4	8	4	8	0
MID-ATLANTIC	2	6	4	4	2
MIDWEST	9	1	7	3	-2
NEW ENGLAND	7	5	6	6	-1
OUTER	3	1	2	2	-1
PACIFIC	5	1	1	5	-4
SOUTH	21	1	12	10	-9
WEST-DESERT	4	2	2	4	-2
WEST-MOUNTAIN	5	5	3	7	-2
TOTAL	66	33	46	53	-20

TABLE 5-4

<u>OF HOUSE</u> <u>MEMBERS</u> <u>FROM THIS</u> <u>STATE....</u>	...THIS PERCENT WAS FROM THESE PARTIES IN...				Change in
	1964		1985		Dems 1964-85
	Dem	Rep	Dem	Rep	
-----	-----	-----	-----	-----	-----
ALABAMA	100.0%	0.0%	71.4%	28.6%	-28.6%
ALASKA	100.0%	0.0%	0.0%	100.0%	-100.0%
ARIZONA	66.7%	33.3%	20.0%	80.0%	-46.7%
ARKANSAS	100.0%	0.0%	75.0%	25.0%	-25.0%
CALIFORNIA	60.5%	39.5%	60.0%	40.0%	-0.5%
COLORADO	50.0%	50.0%	33.3%	66.7%	-16.7%
CONNECTICUT	83.3%	16.7%	50.0%	50.0%	-33.3%
DELAWARE	100.0%	0.0%	100.0%	0.0%	0.0%
FLORIDA	83.3%	16.7%	63.2%	36.8%	-20.1%
GEORGIA	100.0%	0.0%	80.0%	20.0%	-20.0%
HAWAII	100.0%	0.0%	100.0%	0.0%	0.0%
IDAHO	100.0%	0.0%	50.0%	50.0%	-50.0%
ILLINOIS	50.0%	50.0%	59.1%	40.9%	9.1%
INDIANA	36.4%	63.6%	50.0%	50.0%	13.6%
IOWA	14.3%	85.7%	33.3%	66.7%	19.0%
KANSAS	0.0%	100.0%	40.0%	60.0%	40.0%
KENTUCKY	71.4%	28.6%	57.1%	42.9%	-14.3%
LOUISIANA	100.0%	0.0%	75.0%	25.0%	-25.0%
MAINE	0.0%	100.0%	0.0%	100.0%	0.0%
MARYLAND	75.0%	25.0%	75.0%	25.0%	0.0%
MASSACHUSETTS	58.3%	41.7%	90.9%	9.1%	32.6%
MICHIGAN	42.1%	57.9%	61.1%	38.9%	19.0%
MINNESOTA	50.0%	50.0%	62.5%	37.5%	12.5%
MISSISSIPPI	100.0%	0.0%	60.0%	40.0%	-40.0%
MISSOURI	80.0%	20.0%	66.7%	33.3%	-13.3%
MONTANA	50.0%	50.0%	50.0%	50.0%	0.0%
NEBRASKA	0.0%	100.0%	0.0%	100.0%	0.0%
NEVADA	100.0%	0.0%	50.0%	50.0%	-50.0%

TABLE 5-4 (Continued)

<u>OF HOUSE</u> <u>MEMBERS</u> FROM THIS STATE....	...THIS PERCENT WAS FROM THESE PARTIES IN...				Change in Dems 1964-85
	1964		1985		
	Dem	Rep	Dem	Rep	
NEW HAMPSHIRE	0.0%	100.0%	0.0%	100.0%	0.0%
NEW JERSEY	46.7%	53.3%	57.1%	42.9%	10.4%
NEW MEXICO	100.0%	0.0%	33.3%	66.7%	-66.7%
NEW YORK	48.8%	51.2%	55.9%	44.1%	7.1%
NORTH CAROLINA	81.8%	18.2%	54.5%	45.5%	-27.3%
NORTH DAKOTA	0.0%	100.0%	100.0%	0.0%	100.0%
OHIO	25.0%	75.0%	52.4%	47.6%	27.4%
OKLAHOMA	83.3%	16.7%	83.3%	16.7%	0.0%
OREGON	75.0%	25.0%	60.0%	40.0%	-15.0%
PENNSYLVANIA	50.0%	50.0%	56.5%	43.5%	6.5%
RHODE ISLAND	100.0%	0.0%	100.0%	0.0%	0.0%
SOUTH CAROLINA	100.0%	0.0%	50.0%	50.0%	-50.0%
SOUTH DAKOTA	0.0%	100.0%	100.0%	0.0%	100.0%
TENNESSEE	66.7%	33.3%	66.7%	33.3%	0.0%
TEXAS	91.3%	8.7%	63.0%	37.0%	-28.3%
UTAH	0.0%	100.0%	0.0%	100.0%	0.0%
VERMONT	0.0%	100.0%	100.0%	0.0%	100.0%
VIRGINIA	80.0%	20.0%	40.0%	60.0%	-40.0%
WASHINGTON	14.3%	85.7%	62.5%	37.5%	48.2%
WEST VIRGINIA	80.0%	20.0%	100.0%	0.0%	20.0%
WISCONSIN	40.0%	60.0%	55.6%	44.4%	15.6%
WYOMING	0.0%	100.0%	0.0%	100.0%	0.0%
TOTAL	59.4%	40.6%	58.6%	41.4%	-0.8%

TABLE 5-5

SENATE SEATS DISTRIBUTED BY PARTY, STATE, AND YEAR

State	1964 Dem	Rep	1985 Dem	Rep	Net Dem Gain
ALABAMA	2	0	1	1	-1
ALASKA	2	0	0	2	-2
ARIZONA	1	1	1	1	0
ARKANSAS	2	0	2	0	0
CALIFORNIA	1	1	1	1	0
COLORADO	0	2	1	1	1
CONNECTICUT	2	0	1	1	-1
DELAWARE	0	2	1	1	1
FLORIDA	2	0	1	1	-1
GEORGIA	2	0	1	1	-1
HAWAII	1	1	2	0	1
IDAHO	1	1	0	2	-1
ILLINOIS	1	1	2	0	1
INDIANA	2	0	0	2	-2
IOWA	0	2	1	1	1
KANSAS	0	2	0	2	0
KENTUCKY	0	2	1	1	1
LOUISIANA	2	0	2	0	0
MAINE	1	1	1	1	0
MARYLAND	1	1	1	1	0
MASSACHUSETTS	1	1	2	0	1
MICHIGAN	2	0	2	0	0
MINNESOTA	2	0	0	2	-2
MISSISSIPPI	2	0	1	1	-1
MISSOURI	2	0	1	1	-1
MONTANA	2	0	2	0	0
NEBRASKA	0	2	2	0	2
NEVADA	2	0	0	2	-2
NEW HAMPSHIRE	1	1	0	2	-1
NEW JERSEY	1	1	2	0	1
NEW MEXICO	1	1	1	1	0
NEW YORK	0	2	1	1	1
NORTH CAROLINA	2	0	0	2	-2
NORTH DAKOTA	1	1	1	1	0

TABLE 5-5 (Continued)

SENATE SEATS DISTRIBUTED BY PARTY, STATE, AND YEAR

State	1964 Dem	Rep	1985 Dem	Rep	Net Dem Gain
OHIO	2	0	2	0	0
OKLAHOMA	2	0	1	1	-1
OREGON	2	0	0	2	-2
PENNSYLVANIA	1	1	0	2	-1
RHODE ISLAND	2	0	1	1	-1
SOUTH CAROLINA	2	0	1	1	-1
SOUTH DAKOTA	1	1	0	2	-1
TENNESSEE	2	0	2	0	0
TEXAS	1	1	1	1	0
UTAH	1	1	0	2	-1
VERMONT	0	2	1	1	1
VIRGINIA	2	0	0	2	-2
WASHINGTON	2	0	0	2	-2
WEST VIRGINIA	1	0	1	0	0
WISCONSIN	2	0	1	1	-1
WYOMING	1	1	0	2	-1
TOTAL	66	33	46	53	-20

TABLE 5-6

...THIS PERCENT WAS FROM THIS REGION	OF HOUSE MEMBERS WHO WERE...			
	Democrats		Republicans	
	in...		in...	
	1964	1985	1964	1985
BORDER	10.9%	9.8%	4.6%	5.0%
FARM	2.0%	4.3%	11.9%	7.2%
MID-ATLANTIC	16.0%	16.1%	23.9%	17.2%
MIDWEST	13.2%	17.6%	30.7%	19.4%
NEW ENGLAND	5.5%	6.3%	6.3%	4.4%
OUTER	1.2%	0.8%	0.0%	0.6%
PACIFIC	10.5%	13.7%	12.5%	12.8%
SOUTH	37.0%	28.6%	6.3%	23.9%
WEST-DESERT	2.0%	1.2%	0.6%	3.9%
WEST-MOUNTAIN	2.0%	1.6%	3.4%	5.6%
TOTAL	100.0%	100.0%	100.0%	100.0%

TABLE 5-7

...THIS PERCENT WAS FROM THIS STATE	OF HOUSE MEMBERS WHO WERE...			
	Democrats		Republicans	
	in...		in...	
	1964	1985	1964	1985
ALABAMA	3.1%	2.0%	0.0%	1.1%
ALASKA	0.4%	0.0%	0.0%	0.6%
ARIZONA	0.8%	0.4%	0.6%	2.2%
ARKANSAS	1.6%	1.2%	0.0%	0.6%
CALIFORNIA	9.0%	10.6%	8.5%	10.0%
COLORADO	0.8%	0.8%	1.1%	2.2%
CONNECTICUT	2.0%	1.2%	0.6%	1.7%
DELAWARE	0.4%	0.4%	0.0%	0.0%
FLORIDA	3.9%	4.7%	1.1%	3.9%
GEORGIA	3.9%	3.1%	0.0%	1.1%
HAWAII	0.8%	0.8%	0.0%	0.0%
IDAHO	0.8%	0.4%	0.0%	0.6%
ILLINOIS	4.7%	5.1%	6.8%	5.0%
INDIANA	1.6%	2.0%	4.0%	2.8%
IOWA	0.4%	0.8%	3.4%	2.2%
KANSAS	0.0%	0.8%	2.8%	1.7%
KENTUCKY	2.0%	1.6%	1.1%	1.7%
LOUISIANA	3.1%	2.4%	0.0%	1.1%
MAINE	0.0%	0.0%	1.1%	1.1%
MARYLAND	2.3%	2.4%	1.1%	1.1%
MASSACHUSETTS	2.7%	3.9%	2.8%	0.6%
MICHIGAN	3.1%	4.3%	6.3%	3.9%
MINNESOTA	1.6%	2.0%	2.3%	1.7%
MISSISSIPPI	2.0%	1.2%	0.0%	1.1%
MISSOURI	3.1%	2.4%	1.1%	1.7%
MONTANA	0.4%	0.4%	0.6%	0.6%
NEBRASKA	0.0%	0.0%	1.7%	1.7%
NEVADA	0.4%	0.4%	0.0%	0.6%
NEW HAMPSHIRE	0.0%	0.0%	1.1%	1.1%
NEW JERSEY	2.7%	3.1%	4.6%	3.3%
NEW MEXICO	0.8%	0.4%	0.0%	1.1%
NEW YORK	7.8%	7.5%	11.9%	8.3%

TABLE 5-7 (Continued)

...THIS PERCENT WAS FROM THIS STATE	OF HOUSE MEMBERS WHO WERE...			
	Democrats		Republicans	
	in...		in...	
	1964	1985	1964	1985
NORTH CAROLINA	3.5%	2.4%	1.1%	2.8%
NORTH DAKOTA	0.0%	0.4%	0.6%	0.0%
OHIO	2.3%	4.3%	10.2%	5.6%
OKLAHOMA	2.0%	2.0%	0.6%	0.6%
OREGON	1.2%	1.2%	0.6%	1.1%
PENNSYLVANIA	5.1%	5.1%	7.4%	5.6%
RHODE ISLAND	0.8%	0.8%	0.0%	0.0%
SOUTH CAROLINA	2.3%	1.2%	0.0%	1.7%
SOUTH DAKOTA	0.0%	0.4%	1.1%	0.0%
TENNESSEE	2.3%	2.4%	1.7%	1.7%
TEXAS	8.2%	6.7%	1.1%	5.6%
UTAH	0.0%	0.0%	1.1%	1.7%
VERMONT	0.0%	0.4%	0.6%	0.0%
VIRGINIA	3.1%	1.6%	1.1%	3.3%
WASHINGTON	0.4%	2.0%	3.4%	1.7%
WEST VIRGINIA	1.6%	1.6%	0.6%	0.0%
WISCONSIN	1.6%	2.0%	3.4%	2.2%
WYOMING	0.0%	0.0%	0.6%	0.6%
TOTAL	100.0%	100.0%	100.0%	100.0%

During passage of the Kennedy Tax Cut, Democrats dominated the South and the Border regions, the Desert West and Hawaii and Alaska in the House, as they did in the Senate. Democrats also controlled all but one of the Midwestern Senate seats and all but one of the Pacific Coast Senate seats. Republican strength was concentrated in the Farm States in both Houses, the Midwest in the House, and the Mid-Atlantic in the Senate. Other regions of the country, namely New England, and the Mountain West, were essentially split in both houses, while the Pacific Coast and Mid-Atlantic regions were competitive in the House, but not in the Senate.

Despite these regional dominances, Republicans in fact got almost one-third of their votes in the House from Midwestern representatives and almost another quarter from the Mid-Atlantic States. The Pacific Coast states provided the next largest bloc of Republican seats at 12.5% of all Republican House seats, and the Farm States were fourth at around 12%. Despite the Republicans' almost total control of the farming regions of the country, much more of the population, and hence many more of the House representatives generally, came from the North and Midwestern parts of America. Combined with their near-exclusion from the South, House Republicans were more oriented towards the northern regions of the country, whether in the prairies or the industrial heartland, and the Atlantic and Pacific coasts.

House Democrats, on the other hand, were much more

oriented towards the Southern United States. 37% of House Democrats came from the South, and nearly another 11% came from the Border regions, making up almost half of total party membership in that chamber. The Mid-Atlantic and Midwest were also important sources of Democratic House votes, but together they accounted for roughly 29% of those votes, a bit more than three fourths of the Southern share of votes alone.

Because of the even greater dominance of Democrats in the Senate, the somewhat different regional allocations of party strength, and the fact that each State gets only two Senate seats, Southern Democratic Senators did not dominate their party quite as much in numbers. Still, the South held 21 of the 66 Democratic Senate seats, and the Border region held another 6 seats. Given the strength of conservative Southern Democrats in Senate committee and party leadership, and the still significant size of their regional delegation in the Senate, the Senate Democrats were perhaps even more oriented towards the South than their House counterparts.

Senate Republicans remained more concentrated on the North. Only 4 of their 33 Senate seats were from the South or Border (only 1 was from the South). Because of the equal representation among States, Senate Republicans were much more dominated by Farm State and Mountain West representatives - more than one-third of Republican members came from these regions. Mid-Atlantic Senators controlled another 6 seats, but because Republicans held only 1 of the 10 Midwestern

Senate seats, and only 1 of 5 of the Pacific Coast seats, these regions had almost none of the influence that their House counterparts had on their Congressional delegation.

By 1985, the mighty Democrats had fallen in the Senate, and Senate and House Democrats and Republicans had significantly changed their regional complexions. House and Senate Democrats had lost their dominance in the South, and their advantage in the Border States had eroded slightly. Although Democrats still controlled a majority of Southern House and Senate slots, Republicans held close to two-fifths of the House seats and nearly half of the Senate seats. House Democrats were still the dominant party in the Border region, but Senate Democrats held the area by only one seat. Because of the strong Republican trend in Alaska, Democrats no longer dominated the non-Continental States and they lost heavily in the West generally. However, House Democrats had gained marginally on the Pacific Coast, and had made significant gains in the Midwest, Mid-Atlantic and New England, coming to dominate each of those areas.

In the Senate, once again, the patterns were a bit different. The Pacific Coast had completely flipped, from a 5-1 Democratic margin in 1964 to 5-1 Republican margin in 1985. Democratic strength had slipped in the Midwest by 2 seats, although Democrats still controlled it 7-3. Democrats had gained two seats in the Mid-Atlantic and lost one in New England, exactly splitting the regions with

Republicans. In fact, they lost seats nearly everywhere except the Mid-Atlantic, an artefact of the circumstance of the switch from Democratic to Republican control of the Senate.

As a result of these changes, Republicans became more oriented towards the South and West of the country, while Democrats became more oriented towards its declining regions in the Northeast and towards the Pacific Coast. Southern House Republicans had accounted for only 6.3% of their party's House membership in 1964, but almost one-quarter of that membership in 1985. Similarly, whereas 4% of House Republicans were drawn from the Desert and Mountain West in 1964, that share more than doubled to 9.5% in 1985. Together with the Border regions, almost two-fifths of Republican House votes were drawn from the Southern or Western United States. These patterns were roughly repeated in the Senate, where these same regions held 25 of the Republicans' 53 Senate seats.

Democrats, on the other hand, while still retaining a significantly Southern flavor, had to rely much more heavily on Northeastern votes than before. In 1964, House Democrats obtained almost 48% of their votes from the South and Border regions, while almost 35% came from the Mid-Atlantic, Midwest and New England States. By 1985, these regions were much more evenly matched and the Northeast was dominant, with 38.4% of House Democratic votes coming from the former and 40% coming

from the latter blocs. The Pacific Coast meanwhile had increased its share of House votes from 10.5% in 1964 to 13.7% in 1985. In the Senate, the same pattern prevailed, with the South and Border Senators evenly matched with the Mid-Atlantic, Midwest and New England Senators at 17 seats each. The exception was the collapse of Democratic Senatorial strength on the Pacific Coast.

As noted above, some of this shift in regional alliances had to do with changes in the geographic incidence of party strength. The Solid South was no more, the West was now dominated by Republicans, and the older regions of the country were becoming less competitive, with a Democratic edge. At the same time, much of the shift in party strength in the House, where regions were represented according to population, occurred because people were moving from the North to the South, and from the East to the West.

Tables 5-8, 5-9, 5-10 and 5-11 make the point. The first table shows the distribution of Senate and House seats across regions in 1964 and 1985. Of course, the distribution of Senate seats does not change since each State is guaranteed two Senators. However, the number of House seats controlled by a given region had changed.

Table 5-11 orders the regions by the percentage of House seats they controlled. The rank ordering of the regions had not been altered between 1964 and 1985, but the relative strength had. Southern states had always been the biggest

bloc of House votes, but had strengthened their lead by constituting 26.7% of total House votes in 1985, as opposed to 24.4% in 1964. Meanwhile, the Midwest and Mid-Atlantic had both lost significant voting power. The two regions together accounted for almost 2 in 5 of all House votes in 1964, but for only a bit more than 1 in 3

Table 5-8

PERCENTAGE OF SEATS HELD BY VARIOUS REGIONS DURING PASSAGE OF...

	KENNEDY House	TAX CUT Senate	GRAMM-RUDMAN House	Senate	Change in House 1964-85
% Border	8.3%	10%	7.8%	10%	-0.5%
% Farm	6.2%	12%	5.5%	12%	-0.7%
% Mid-Atlantic	19.3%	8%	16.6%	8%	-2.7%
% Midwest	20.2%	10%	18.4%	10%	-1.8%
% New England	5.7%	12%	5.5%	12%	-0.2%
% Outer	0.7%	4%	0.7%	4%	0.0%
% Pacific	11.3%	6%	13.3%	6%	2.0%
% South	24.4%	22%	26.7%	22%	2.3%
% Desert West	1.4%	6%	2.3%	6%	0.9%
% Mountain West	2.5%	10%	3.2%	10%	0.7%
TOTAL	100%	100%	100%	100%	
[Memo: all West	3.9%	16%	5.5%	16%	1.6%

Table 5-9

NUMBER OF SEATS HELD BY REGIONAL DELEGATIONS

	1964 House	1985 House
% Southern States	24.4%	26.7%
% Midwest States	20.2%	18.4%
% Mid-Atlantic States	19.3%	16.6%
% Pacific States	11.3%	13.3%
% Border States	8.3%	7.8%
% Farm States	6.2%	5.5%
% New England States	5.7%	5.5%
% Mountain West States	2.5%	3.2%
% Desert West States	1.4%	2.3%
% Outer States	0.7%	0.7%
TOTAL	100.0%	100.0%

Table 5-10

PERCENTAGE OF TOTAL HOUSE SEATS HELD BY STATE DELEGATIONS
IN...

State	1964	1985	Chng 64-85
-----	-----	-----	-----
ALABAMA	1.8%	1.6%	-0.2%
ALASKA	0.2%	0.2%	-0.0%
ARIZONA	0.7%	1.1%	0.4%
ARKANSAS	0.9%	0.9%	-0.0%
CALIFORNIA	8.8%	10.3%	1.5%
COLORADO	0.9%	1.4%	0.5%
CONNECTICUT	1.4%	1.4%	0.0%
DELAWARE	0.2%	0.2%	-0.0%
FLORIDA	2.8%	4.4%	1.6%
GEORGIA	2.3%	2.3%	-0.0%
HAWAII	0.5%	0.5%	0.0%
IDAHO	0.5%	0.5%	0.0%
ILLINOIS	5.5%	5.1%	-0.4%
INDIANA	2.5%	2.3%	-0.2%
IOWA	1.6%	1.4%	-0.2%
KANSAS	1.2%	1.1%	-0.1%
KENTUCKY	1.6%	1.6%	-0.0%
LOUISIANA	1.8%	1.8%	-0.0%
MAINE	0.5%	0.5%	0.0%
MARYLAND	1.8%	1.8%	-0.0%
MASSACHUSETTS	2.8%	2.5%	-0.3%
MICHIGAN	4.4%	4.1%	-0.3%
MINNESOTA	1.8%	1.8%	-0.0%
MISSISSIPPI	1.2%	1.1%	-0.1%
MISSOURI	2.3%	2.1%	-0.2%
MONTANA	0.5%	0.5%	0.0%
NEBRASKA	0.7%	0.7%	0.0%
NEVADA	0.2%	0.5%	0.3%
NEW HAMPSHIRE	0.5%	0.5%	0.0%
NEW JERSEY	3.5%	3.2%	-0.3%
NEW MEXICO	0.5%	0.7%	0.2%
NEW YORK	9.5%	7.8%	-1.7%
NORTH CAROLINA	2.5%	2.5%	-0.0%

Table 5-10 (Continued)

PERCENTAGE OF TOTAL HOUSE SEATS HELD BY STATE DELEGATIONS
IN...

State	1964	1985	Chng 64-85
-----	-----	-----	-----
NORTH DAKOTA	0.2%	0.2%	-0.0%
OHIO	5.5%	4.8%	-0.7%
OKLAHOMA	1.4%	1.4%	0.0%
OREGON	0.9%	1.1%	0.2%
PENNSYLVANIA	6.0%	5.3%	-0.7%
RHODE ISLAND	0.5%	0.5%	0.0%
SOUTH CAROLINA	1.4%	1.4%	0.0%
SOUTH DAKOTA	0.5%	0.2%	-0.3%
TENNESSEE	2.1%	2.1%	0.0%
TEXAS	5.3%	6.2%	0.9%
UTAH	0.5%	0.7%	0.2%
VERMONT	0.2%	0.2%	-0.0%
VIRGINIA	2.3%	2.3%	-0.0%
WASHINGTON	1.6%	1.8%	0.2%
WEST VIRGINIA	1.2%	0.9%	-0.3%
WISCONSIN	2.3%	2.1%	-0.2%
WYOMING	0.2%	0.2%	-0.0%

Table 5-11

PERCENTAGE OF HOUSE SEATS HELD BY STATE DELEGATIONS

	1964	Cumulative Total		1985	Cumulative Total
NEW YORK	9.5%	9.5%	CALIFORNIA	10.3%	10.3%
CALIFORNIA	8.8%	18.2%	NEW YORK	7.8%	18.1%
PENNSYLVANIA	6.0%	24.3%	TEXAS	6.2%	24.3%
OHIO	5.5%	29.8%	PENNSYLVANIA	5.3%	29.6%
ILLINOIS	5.5%	35.3%	ILLINOIS	5.1%	34.7%
TEXAS	5.3%	40.6%	OHIO	4.8%	39.5%
MICHIGAN	4.4%	45.0%	FLORIDA	4.4%	43.9%
NEW JERSEY	3.5%	48.5%	MICHIGAN	4.1%	48.0%
FLORIDA	2.8%	51.3%	NEW JERSEY	3.2%	51.2%
MASSACHUSETTS	2.8%	54.0%	MASSACHUSETTS	2.5%	53.7%
NORTH CAROLINA	2.5%	56.6%	NORTH CAROLINA	2.5%	56.2%
INDIANA	2.5%	59.1%	INDIANA	2.3%	58.5%
VIRGINIA	2.3%	61.4%	GEORGIA	2.3%	60.8%
WISCONSIN	2.3%	63.7%	VIRGINIA	2.3%	63.1%
MISSOURI	2.3%	66.0%	MISSOURI	2.1%	65.2%
GEORGIA	2.3%	68.4%	TENNESSEE	2.1%	67.3%
TENNESSEE	2.1%	70.4%	WISCONSIN	2.1%	69.4%
MARYLAND	1.8%	72.3%	MARYLAND	1.8%	71.2%
ALABAMA	1.8%	74.1%	MINNESOTA	1.8%	73.0%
LOUISIANA	1.8%	76.0%	LOUISIANA	1.8%	74.8%
MINNESOTA	1.8%	77.8%	WASHINGTON	1.8%	76.6%
IOWA	1.6%	79.4%	ALABAMA	1.6%	78.2%
WASHINGTON	1.6%	81.1%	KENTUCKY	1.6%	79.8%
KENTUCKY	1.6%	82.7%	SOUTH CAROLINA	1.4%	81.2%
CONNECTICUT	1.4%	84.1%	COLORADO	1.4%	82.6%
SOUTH CAROLINA	1.4%	85.5%	OKLAHOMA	1.4%	84.0%
OKLAHOMA	1.4%	86.8%	CONNECTICUT	1.4%	85.4%
WEST VIRGINIA	1.2%	88.0%	IOWA	1.4%	86.8%
MISSISSIPPI	1.2%	89.1%	OREGON	1.1%	87.9%
KANSAS	1.2%	90.3%	MISSISSIPPI	1.1%	89.0%
COLORADO	0.9%	91.2%	KANSAS	1.1%	90.1%

Table 5-11 (Continued)

PERCENTAGE OF HOUSE SEATS HELD BY STATE DELEGATIONS

	1964	Cumulative Total		1985	Cumulative Total
ARKANSAS	0.9%	92.2%	ARIZONA	1.1%	91.2%
OREGON	0.9%	93.1%	WEST VIRGINIA	0.9%	92.1%
NEBRASKA	0.7%	93.8%	ARKANSAS	0.9%	93.0%
ARIZONA	0.7%	94.5%	UTAH	0.7%	93.7%
HAWAII	0.5%	94.9%	NEW MEXICO	0.7%	94.4%
UTAH	0.5%	95.4%	NEBRASKA	0.7%	95.1%
SOUTH DAKOTA	0.5%	95.8%	NEVADA	0.5%	95.6%
RHODE ISLAND	0.5%	96.3%	MAINE	0.5%	96.1%
NEW MEXICO	0.5%	96.8%	MONTANA	0.5%	96.6%
MONTANA	0.5%	97.2%	NEW HAMPSHIRE	0.5%	97.1%
NEW HAMPSHIRE	0.5%	97.7%	HAWAII	0.5%	97.6%
MAINE	0.5%	98.2%	RHODE ISLAND	0.5%	98.1%
IDAHO	0.5%	98.6%	IDAHO	0.5%	98.6%
NEVADA	0.2%	98.9%	WYOMING	0.2%	98.8%
WYOMING	0.2%	99.1%	ALASKA	0.2%	99.0%
ALASKA	0.2%	99.3%	NORTH DAKOTA	0.2%	99.2%
DELAWARE	0.2%	99.5%	DELAWARE	0.2%	99.4%
NORTH DAKOTA	0.2%	99.8%	VERMONT	0.2%	99.6%
VERMONT	0.2%	100.0%	SOUTH DAKOTA	0.2%	99.8%

in 1985.

Meanwhile, the West was growing fast. The Pacific Coast accounted for 13.3% of all House votes in 1985, up two full percentage points since 1964, and the Desert and Mountain West accounted for 5.5%, up more than one and one-half percentage points in the same period. Together these Western regions overwhelmed the relative influence of the Mid-Atlantic and more than matched that of the Midwest, whereas in Kennedy's time, they matched neither. In fact, together with the South, they nearly commanded a majority of House votes, making the other sections of the country potentially irrelevant in cobbling together majorities on the House floor.

Examination of trends in the individual States reveals even more dramatic changes. While the top ten States in terms of population, and hence of House votes, had not changed since 1964, the rank orderings in terms of voting strength had. In 1985, California alone controlled more than 10% of the total votes in the House. The two Southern States of Texas and Florida controlled a share slightly more than that. New York, formerly the largest State in the union, controlled only 7.8% of the votes, down from 9.5% in 1964, and, with current population trends, was competing for with Texas for third place in the coming decades. Pennsylvania and Ohio had each lost more than a half percentage-point of their voting strength between 1964 and 1985, and Illinois and Michigan had lost nearly that much.

Taken together, these figures show some continuities and discontinuities in the constraints which Kennedy and Reagan (or more precisely, Congressional Republicans in this case) faced when building a majority for passage of their respective legislative programs. Kennedy had the nominal advantage of Democratic control of both houses of Congress, with a 2-1 advantage in the Senate. His Congressional party was dominated by a single region of the country, namely the South, that had to be catered to, and, combined with its control of many of the institutions of Congress, as detailed in a later chapter, led perhaps to a neglect of other sectional interests.

Reagan's party, meanwhile, had control of the Senate, though the margin was fairly close, while Democrats retained control of the House. In both cases Republican strength was becoming increasingly concentrated in the South and West, while Democratic strength was becoming correspondingly diluted in those same regions. To a certain degree, the Republicans were looking a bit more like the South-centered Congressional Democratic party of old, while the Democrats were looking a bit more like the Old Northwest Republicans of a prior era. Even in the Farm Belt, a Republican stronghold, Democrats had made inroads.

Yet during both periods, ten States held half the votes needed to pass a bill by a majority in the House and these were the same ten States in 1985 as they were in 1964. Of

course there was no change in the notional number of States needed for a Senate majority - twenty-five. However, the same regional shifts were evident - the Western and Southern States, areas of Republican strength, were growing at the expense of Midwestern and Northeastern States, areas of Democratic strength. The new phenomenon, not yet fully realizing trends of the 1990's, was California, which was the largest State in the union, commanding more than a tenth of all House votes, and fairly competitive between the two parties.

The Votes

Having spelled out the regions and party alignments which the two Presidents and Congressional leaders had to work with, the question arises of what coalitions actually did coalesce?

A number of comments are in order before proceeding. For the Kennedy tax cut, three key votes were taken in each house of Congress. Votes in the Senate and the House were both taken on an individual bill and a conference report, and in the House there was Republican-offered recommittal motion to kill the tax cut, while in the Senate a Republican-inspired repeal of the tax cut conditional on the expenditures for the next fiscal year exceeding \$100 million was voted on. Thus, in characterizing voting patterns on the Kennedy tax cut, one can characterize representatives according to those who never voted for the measure (i.e. voted against the bill in their

respective house, against the conference measure, and for the Republican recommittal or repeal motions), those who voted for it once (i.e. either for the bill in the House, or out of the conference committee, or against the one of the Republican alternatives), voted for it twice (for the bill and conference committee report and for the recommittal or repeal motion, or for the bill or conference report and against the recommittal or repeal motion), or voted for it all three times (for both bill and conference report and against recommittal or repeal). That is how the votes are characterized in the tables below. Abstentions and absences were not counted in the totals.

Tables 5-12 through 5-17 break down the voting patterns on the Kennedy Tax Cut across party, region and State in the House of Representatives. Tables 5-18 through 5-23 make the same breakdowns for the Senate.

TABLE 5-12

OF HOUSE MEMBERS
WHO WERE...

...THIS PROPORTION
VOTED FOR THE KENNEDY TAX CUT...

	Never	Once	Twice	Always	TOTAL
-----	-----	-----	-----	-----	-----
Democrats	5.1%	5.4%	7.8%	81.7%	100.0%
Republicans	37.5%	34.7%	27.3%	0.6%	100.0%
-----	-----	-----	-----	-----	-----
TOTAL	18.2%	17.5%	15.9%	48.5%	100.0%

TABLE 5-13

...THIS PERCENT
WERE...

OF HOUSE MEMBERS
VOTING FOR THE KENNEDY TAX CUT...

	Never	Once	Twice	Always	TOTAL
-----	-----	-----	-----	-----	-----
Democrats	16.5%	18.4%	29.0%	99.5%	59.1%
Republicans	83.5%	80.3%	69.6%	0.5%	40.5%
-----	-----	-----	-----	-----	-----
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 5-14

OF HOUSE MEMBERS FROM THE FOLLOWING REGIONS...	...THIS PERCENT VOTED FOR THE KENNEDY TAX CUT...				
	Never	Once	Twice	Always	TOTAL
BORDER	8.0%	8.0%	15.0%	69.0%	100.0%
FARM	44.4%	29.6%	11.1%	14.8%	100.0%
MID-ATLANTIC	4.8%	14.3%	34.5%	46.4%	100.0%
MIDWEST	31.8%	20.5%	10.2%	37.5%	100.0%
NEW ENGLAND	8.0%	12.0%	28.0%	52.0%	100.0%
OUTER	0.0%	0.0%	0.0%	100.0%	100.0%
PACIFIC	22.4%	16.3%	6.1%	55.1%	100.0%
SOUTH	15.1%	17.9%	12.3%	54.7%	100.0%
WEST-DESERT	33.3%	0.0%	0.0%	66.7%	100.0%
WEST-MOUNTAIN	9.1%	45.5%	0.0%	45.5%	100.0%
TOTAL	18.2%	17.5%	15.9%	48.5%	100.0%

TABLE 5-15

...THIS PERCENT WAS FROM THESE REGIONS	OF HOUSE MEMBERS WHO VOTED FOR THE KENNEDY TAX CUT...				
	Never	Once	Twice	Always	TOTAL
BORDER	3.8%	3.9%	7.2%	11.8%	8.3%
FARM	15.2%	10.5%	4.3%	1.9%	6.2%
MID-ATLANTIC	5.1%	15.8%	42.0%	18.5%	19.3%
MIDWEST	35.4%	23.7%	13.0%	15.6%	20.2%
NEW ENGLAND	2.5%	3.9%	10.1%	6.2%	5.7%
OUTER	0.0%	0.0%	0.0%	1.4%	0.7%
PACIFIC	13.9%	10.5%	4.3%	12.8%	11.3%
SOUTH	20.3%	25.0%	18.8%	27.5%	24.4%
WEST-DESERT	2.5%	0.0%	0.0%	1.9%	1.4%
WEST-MOUNTAIN	1.3%	6.6%	0.0%	2.4%	2.5%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 5-16

OF THOSE
HOUSE MEMBERS
FROM THESE
STATES....

...THIS PERCENT VOTED FOR THE
KENNEDY TAX CUT

	Never	Once	Twice	Always	TOTAL
ALABAMA	0.0%	25.0%	25.0%	50.0%	100.0%
ALASKA	0.0%	0.0%	0.0%	100.0%	100.0%
ARIZONA	33.3%	0.0%	0.0%	66.7%	100.0%
ARKANSAS	25.0%	0.0%	0.0%	75.0%	100.0%
CALIFORNIA	23.7%	10.5%	5.3%	60.5%	100.0%
COLORADO	0.0%	50.0%	0.0%	50.0%	100.0%
CONNECTICUT	0.0%	0.0%	16.7%	83.3%	100.0%
DELAWARE	0.0%	0.0%	0.0%	100.0%	100.0%
FLORIDA	8.3%	25.0%	0.0%	66.7%	100.0%
GEORGIA	0.0%	20.0%	0.0%	80.0%	100.0%
HAWAII	0.0%	0.0%	0.0%	100.0%	100.0%
IDAHO	0.0%	0.0%	0.0%	100.0%	100.0%
ILLINOIS	37.5%	16.7%	0.0%	45.8%	100.0%
INDIANA	27.3%	18.2%	18.2%	36.4%	100.0%
IOWA	71.4%	0.0%	28.6%	0.0%	100.0%
KANSAS	40.0%	60.0%	0.0%	0.0%	100.0%
KENTUCKY	0.0%	14.3%	14.3%	71.4%	100.0%
LOUISIANA	12.5%	0.0%	12.5%	75.0%	100.0%
MAINE	0.0%	50.0%	50.0%	0.0%	100.0%
MARYLAND	0.0%	25.0%	0.0%	75.0%	100.0%
MASSACHUSETTS	8.3%	8.3%	33.3%	50.0%	100.0%
MICHIGAN	36.8%	10.5%	15.8%	36.8%	100.0%
MINNESOTA	0.0%	50.0%	0.0%	50.0%	100.0%
MISSISSIPPI	80.0%	0.0%	20.0%	0.0%	100.0%
MISSOURI	20.0%	0.0%	20.0%	60.0%	100.0%
MONTANA	0.0%	50.0%	0.0%	50.0%	100.0%
NEBRASKA	100.0%	0.0%	0.0%	0.0%	100.0%
NEVADA	100.0%	0.0%	0.0%	0.0%	100.0%
NEW HAMPSHIRE	50.0%	50.0%	0.0%	0.0%	100.0%
NEW JERSEY	0.0%	0.0%	53.3%	46.7%	100.0%
NEW MEXICO	0.0%	0.0%	0.0%	100.0%	100.0%
NEW YORK	7.3%	12.2%	34.1%	46.3%	100.0%
NORTH CAROLINA	0.0%	27.3%	27.3%	45.5%	100.0%

TABLE 5-16 (Continued)

OF THOSE HOUSE MEMBERS FROM THESE STATES....	...THIS PERCENT VOTED FOR THE KENNEDY TAX CUT				TOTAL
	Never	Once	Twice	Always	
NORTH DAKOTA	0.0%	50.0%	50.0%	0.0%	100.0%
OHIO	25.0%	33.3%	16.7%	25.0%	100.0%
OKLAHOMA	16.7%	0.0%	16.7%	66.7%	100.0%
OREGON	25.0%	0.0%	0.0%	75.0%	100.0%
PENNSYLVANIA	3.7%	25.9%	25.9%	44.4%	100.0%
RHODE ISLAND	0.0%	0.0%	0.0%	100.0%	100.0%
SOUTH CAROLINA	0.0%	33.3%	16.7%	50.0%	100.0%
SOUTH DAKOTA	100.0%	0.0%	0.0%	0.0%	100.0%
TENNESSEE	33.3%	0.0%	0.0%	66.7%	100.0%
TEXAS	8.7%	17.4%	21.7%	52.2%	100.0%
UTAH	50.0%	50.0%	0.0%	0.0%	100.0%
VERMONT	0.0%	0.0%	100.0%	0.0%	100.0%
VIRGINIA	40.0%	30.0%	0.0%	30.0%	100.0%
WASHINGTON	14.3%	57.1%	14.3%	14.3%	100.0%
WEST VIRGINIA	0.0%	0.0%	20.0%	80.0%	100.0%
WISCONSIN	30.0%	20.0%	0.0%	50.0%	100.0%
WYOMING	0.0%	100.0%	0.0%	0.0%	100.0%
TOTAL	18.2%	17.5%	15.9%	48.5%	100.0%

TABLE 5-17

...THIS PERCENT WAS FROM THE FOLLOWING STATES	OF HOUSE MEMBERS WHO VOTED FOR THE KENNEDY TAX CUT...				TOTAL
	Never	Once	Twice	Always	
ALABAMA	0.0%	2.6%	2.9%	1.9%	1.8%
ALASKA	0.0%	0.0%	0.0%	0.5%	0.2%
ARIZONA	1.3%	0.0%	0.0%	0.9%	0.7%
ARKANSAS	1.3%	0.0%	0.0%	1.4%	0.9%
CALIFORNIA	11.4%	5.3%	2.9%	10.9%	8.7%
COLORADO	0.0%	2.6%	0.0%	0.9%	0.9%
CONNECTICUT	0.0%	0.0%	1.4%	2.4%	1.4%
DELAWARE	0.0%	0.0%	0.0%	0.5%	0.2%
FLORIDA	1.3%	3.9%	0.0%	3.8%	2.8%
GEORGIA	0.0%	2.6%	0.0%	3.8%	2.3%
HAWAII	0.0%	0.0%	0.0%	0.9%	0.5%
IDAHO	0.0%	0.0%	0.0%	0.9%	0.5%
ILLINOIS	11.4%	5.3%	0.0%	5.2%	5.5%
INDIANA	3.8%	2.6%	2.9%	1.9%	2.5%
IOWA	6.3%	0.0%	2.9%	0.0%	1.6%
KANSAS	2.5%	3.9%	0.0%	0.0%	1.1%
KENTUCKY	0.0%	1.3%	1.4%	2.4%	1.6%
LOUISIANA	1.3%	0.0%	1.4%	2.8%	1.8%
MAINE	0.0%	1.3%	1.4%	0.0%	0.5%
MARYLAND	0.0%	2.6%	0.0%	2.8%	1.8%
MASSACHUSETTS	1.3%	1.3%	5.8%	2.8%	2.8%
MICHIGAN	8.9%	2.6%	4.3%	3.3%	4.4%
MINNESOTA	0.0%	5.3%	0.0%	1.9%	1.8%
MISSISSIPPI	5.1%	0.0%	1.4%	0.0%	1.1%
MISSOURI	2.5%	0.0%	2.9%	2.8%	2.3%
MONTANA	0.0%	1.3%	0.0%	0.5%	0.5%
NEBRASKA	3.8%	0.0%	0.0%	0.0%	0.7%
NEVADA	1.3%	0.0%	0.0%	0.0%	0.2%
NEW HAMPSHIRE	1.3%	1.3%	0.0%	0.0%	0.5%
NEW JERSEY	0.0%	0.0%	11.6%	3.3%	3.4%
NEW MEXICO	0.0%	0.0%	0.0%	0.9%	0.5%
NEW YORK	3.8%	6.6%	20.3%	9.0%	9.4%

TABLE 5-17 (Continued)

...THIS PERCENT WAS FROM THE FOLLOWING STATES	OF HOUSE MEMBERS WHO VOTED FOR THE KENNEDY TAX CUT...				TOTAL
	Never	Once	Twice	Always	
NORTH CAROLINA	0.0%	3.9%	4.3%	2.4%	2.5%
NORTH DAKOTA	0.0%	1.3%	1.4%	0.0%	0.5%
OHIO	7.6%	10.5%	5.8%	2.8%	5.5%
OKLAHOMA	1.3%	0.0%	1.4%	1.9%	1.4%
OREGON	1.3%	0.0%	0.0%	1.4%	0.9%
PENNSYLVANIA	1.3%	9.2%	10.1%	5.7%	6.2%
RHODE ISLAND	0.0%	0.0%	0.0%	0.9%	0.5%
SOUTH CAROLINA	0.0%	2.6%	1.4%	1.4%	1.4%
SOUTH DAKOTA	2.5%	0.0%	0.0%	0.0%	0.5%
TENNESSEE	3.8%	0.0%	0.0%	2.8%	2.1%
TEXAS	2.5%	5.3%	7.2%	5.7%	5.3%
UTAH	1.3%	1.3%	0.0%	0.0%	0.5%
VERMONT	0.0%	0.0%	1.4%	0.0%	0.2%
VIRGINIA	5.1%	3.9%	0.0%	1.4%	2.3%
WASHINGTON	1.3%	5.3%	1.4%	0.5%	1.6%
WEST VIRGINIA	0.0%	0.0%	1.4%	1.9%	1.1%
WISCONSIN	3.8%	2.6%	0.0%	2.4%	2.3%
WYOMING	0.0%	1.3%	0.0%	0.0%	0.2%
ALL	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 5-18

OF SENATORS WHO ARE...	...THIS PERCENT VOTED FOR THE KENNEDY TAX CUT				
	Never	Once	Twice	Always	TOTAL
-----	-----	-----	-----	-----	-----
Democrats	13.6%	3.0%	9.1%	74.2%	100.0%
Independents	0.0%	0.0%	0.0%	100.0%	100.0%
Republicans	30.3%	3.0%	39.4%	27.3%	100.0%
-----	-----	-----	-----	-----	-----
TOTAL	19.0%	3.0%	19.0%	59.0%	100.0%

TABLE 5-19

...THIS PERCENT WERE...	OF SENATORS VOTING FOR THE KENNEDY TAX CUT				
	Never	Once	Twice	Always	TOTAL
-----	-----	-----	-----	-----	-----
Democrats	47.4%	66.7%	31.6%	83.1%	66.0%
Independents	0.0%	0.0%	0.0%	1.7%	1.0%
Republicans	52.6%	33.3%	68.4%	15.3%	33.0%
-----	-----	-----	-----	-----	-----
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 5-20

OF SENATORS FROM THESE REGIONS...	...THIS PERCENT VOTED FOR THE KENNEDY TAX CUT...				
	Never	Once	Twice	Always	TOTAL
BORDER	0.0%	0.0%	10.0%	90.0%	100.0%
FARM	25.0%	8.0%	33.0%	33.0%	100.0%
MID-ATLANTIC	13.0%	0.0%	13.0%	75.0%	100.0%
MIDWEST	20.0%	0.0%	10.0%	70.0%	100.0%
NEW ENGLAND	8.0%	0.0%	25.0%	67.0%	100.0%
OUTER	0.0%	0.0%	0.0%	100.0%	100.0%
PACIFIC	0.0%	17.0%	33.0%	50.0%	100.0%
SOUTH	36.0%	5.0%	14.0%	45.0%	100.0%
WEST-DESERT	33.0%	0.0%	17.0%	50.0%	100.0%
WEST-MOUNTAIN	20.0%	0.0%	30.0%	50.0%	100.0%
TOTAL	19.0%	3.0%	19.0%	59.0%	100.0%

TABLE 5-21

...THIS PERCENT WAS FROM THIS REGION	OF SENATORS WHO VOTED FOR THE KENNEDY TAX				
	Never	Once	Twice	Always	TOTAL
BORDER	0.0%	0.0%	5.0%	15.0%	10.0%
FARM	16.0%	33.0%	21.0%	7.0%	12.0%
MID-ATLANTIC	5.0%	0.0%	5.0%	10.0%	8.0%
MIDWEST	11.0%	0.0%	5.0%	12.0%	10.0%
NEW ENGLAND	5.0%	0.0%	16.0%	14.0%	12.0%
OUTER	0.0%	0.0%	0.0%	7.0%	4.0%
PACIFIC	0.0%	33.0%	11.0%	5.0%	6.0%
SOUTH	42.0%	33.0%	16.0%	17.0%	22.0%
WEST-DESERT	11.0%	0.0%	5.0%	5.0%	6.0%
WEST-MOUNTAIN	11.0%	0.0%	16.0%	8.0%	10.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 5-22

OF SENATORS
FROM THESE
STATES...

...THIS PERCENT VOTED FOR THE KENNEDY TAX CUT

	Never	Once	Twice	Always	TOTAL
ALABAMA	0.0%	0.0%	0.0%	100.0%	100.0%
ALASKA	0.0%	0.0%	0.0%	100.0%	100.0%
ARIZONA	50.0%	0.0%	0.0%	50.0%	100.0%
ARKANSAS	50.0%	0.0%	0.0%	50.0%	100.0%
CALIFORNI	0.0%	0.0%	50.0%	50.0%	100.0%
COLORADO	0.0%	0.0%	100.0%	0.0%	100.0%
CONNECTIC	0.0%	0.0%	0.0%	100.0%	100.0%
DELAWARE	50.0%	0.0%	50.0%	0.0%	100.0%
FLORIDA	0.0%	0.0%	0.0%	100.0%	100.0%
GEORGIA	50.0%	0.0%	0.0%	50.0%	100.0%
HAWAII	0.0%	0.0%	0.0%	100.0%	100.0%
IDAHO	0.0%	0.0%	50.0%	50.0%	100.0%
ILLINOIS	0.0%	0.0%	50.0%	50.0%	100.0%
INDIANA	0.0%	0.0%	0.0%	100.0%	100.0%
IOWA	100.0%	0.0%	0.0%	0.0%	100.0%
KANSAS	0.0%	0.0%	100.0%	0.0%	100.0%
KENTUCKY	0.0%	0.0%	0.0%	100.0%	100.0%
LOUISIANA	0.0%	50.0%	0.0%	50.0%	100.0%
MAINE	0.0%	0.0%	50.0%	50.0%	100.0%
MARYLAND	0.0%	0.0%	50.0%	50.0%	100.0%
MASSACHUSETTS	0.0%	0.0%	0.0%	100.0%	100.0%
MICHIGAN	0.0%	0.0%	0.0%	100.0%	100.0%
MINNESOTA	0.0%	0.0%	0.0%	100.0%	100.0%
MISSISSIPPI	50.0%	0.0%	50.0%	0.0%	100.0%
MISSOURI	0.0%	0.0%	0.0%	100.0%	100.0%
MONTANA	0.0%	0.0%	0.0%	100.0%	100.0%
NEBRASKA	50.0%	50.0%	0.0%	0.0%	100.0%
NEVADA	0.0%	0.0%	0.0%	100.0%	100.0%
NEW HAMPSHIRE	0.0%	0.0%	50.0%	50.0%	100.0%
NEW JERSEY	0.0%	0.0%	0.0%	100.0%	100.0%
NEW MEXICO	50.0%	0.0%	50.0%	0.0%	100.0%
NEW YORK	0.0%	0.0%	0.0%	100.0%	100.0%
NORTH CAROLINA	50.0%	0.0%	50.0%	0.0%	100.0%

TABLE 5-22 (Continued)

OF SENATORS FROM THESE STATES...	...THIS PERCENT VOTED FOR THE KENNEDY TAX CUT				TOTAL
	Never	Once	Twice	Always	
NORTH DAKOTA	0.0%	0.0%	50.0%	50.0%	100.0%
OHIO	50.0%	0.0%	0.0%	50.0%	100.0%
OKLAHOMA	0.0%	0.0%	0.0%	100.0%	100.0%
OREGON	0.0%	50.0%	0.0%	50.0%	100.0%
PENNSYLVANIA	0.0%	0.0%	0.0%	100.0%	100.0%
RHODE ISLAND	0.0%	0.0%	0.0%	100.0%	100.0%
SOUTH CAROLINA	50.0%	0.0%	0.0%	50.0%	100.0%
SOUTH DAKOTA	0.0%	0.0%	50.0%	50.0%	100.0%
TENNESSEE	50.0%	0.0%	0.0%	50.0%	100.0%
TEXAS	50.0%	0.0%	0.0%	50.0%	100.0%
UTAH	50.0%	0.0%	0.0%	50.0%	100.0%
VERMONT	50.0%	0.0%	50.0%	0.0%	100.0%
VIRGINIA	50.0%	0.0%	50.0%	0.0%	100.0%
WASHINGTON	0.0%	0.0%	50.0%	50.0%	100.0%
WEST VIRGINIA	0.0%	0.0%	0.0%	100.0%	100.0%
WISCONSIN	50.0%	0.0%	0.0%	50.0%	100.0%
WYOMING	50.0%	0.0%	0.0%	50.0%	100.0%
TOTAL	19.0%	3.0%	19.0%	59.0%	100.0%

TABLE 5-23

...THIS PERCENT WAS FROM THIS STATE	OF THE SENATORS VOTING FOR THE KENNEDY TAX CUT...				
	Never	Once	Twice	Always	TOTAL
ALABAMA	0.0%	0.0%	0.0%	3.4%	2.0%
ALASKA	0.0%	0.0%	0.0%	3.4%	2.0%
ARIZONA	5.3%	0.0%	0.0%	1.7%	2.0%
ARKANSAS	5.3%	0.0%	0.0%	1.7%	2.0%
CALIFORNIA	0.0%	0.0%	5.3%	1.7%	2.0%
COLORADO	0.0%	0.0%	10.5%	0.0%	2.0%
CONNECTICUT	0.0%	0.0%	0.0%	3.4%	2.0%
DELAWARE	5.3%	0.0%	5.3%	0.0%	2.0%
FLORIDA	0.0%	0.0%	0.0%	3.4%	2.0%
GEORGIA	5.3%	0.0%	0.0%	1.7%	2.0%
HAWAII	0.0%	0.0%	0.0%	3.4%	2.0%
IDAHO	0.0%	0.0%	5.3%	1.7%	2.0%
ILLINOIS	0.0%	0.0%	5.3%	1.7%	2.0%
INDIANA	0.0%	0.0%	0.0%	3.4%	2.0%
IOWA	10.5%	0.0%	0.0%	0.0%	2.0%
KANSAS	0.0%	0.0%	10.5%	0.0%	2.0%
KENTUCKY	0.0%	0.0%	0.0%	3.4%	2.0%
LOUISIANA	0.0%	33.3%	0.0%	1.7%	2.0%
MAINE	0.0%	0.0%	5.3%	1.7%	2.0%
MARYLAND	0.0%	0.0%	5.3%	1.7%	2.0%
MASSACHUSETTS	0.0%	0.0%	0.0%	3.4%	2.0%
MICHIGAN	0.0%	0.0%	0.0%	3.4%	2.0%
MINNESOTA	0.0%	0.0%	0.0%	3.4%	2.0%
MISSISSIPPI	5.3%	0.0%	5.3%	0.0%	2.0%
MISSOURI	0.0%	0.0%	0.0%	3.4%	2.0%
MONTANA	0.0%	0.0%	0.0%	3.4%	2.0%
NEBRASKA	5.3%	33.3%	0.0%	0.0%	2.0%
NEVADA	0.0%	0.0%	0.0%	3.4%	2.0%
NEW HAMPSHIRE	0.0%	0.0%	5.3%	1.7%	2.0%
NEW JERSEY	0.0%	0.0%	0.0%	3.4%	2.0%
NEW MEXICO	5.3%	0.0%	5.3%	0.0%	2.0%
NEW YORK	0.0%	0.0%	0.0%	3.4%	2.0%
NORTH CAROLINA	5.3%	0.0%	5.3%	0.0%	2.0%

TABLE 5-23 (Continued)

...THIS PERCENT WAS FROM THIS STATE	OF THE SENATORS VOTING FOR THE KENNEDY TAX CUT...				TOTAL
	Never	Once	Twice	Always	
NORTH DAKOTA	0.0%	0.0%	5.3%	1.7%	2.0%
OHIO	5.3%	0.0%	0.0%	1.7%	2.0%
OKLAHOMA	0.0%	0.0%	0.0%	3.4%	2.0%
OREGON	0.0%	33.3%	0.0%	1.7%	2.0%
PENNSYLVANIA	0.0%	0.0%	0.0%	3.4%	2.0%
RHODE ISLAND	0.0%	0.0%	0.0%	3.4%	2.0%
SOUTH CAROLINA	5.3%	0.0%	0.0%	1.7%	2.0%
SOUTH DAKOTA	0.0%	0.0%	5.3%	1.7%	2.0%
TENNESSEE	5.3%	0.0%	0.0%	1.7%	2.0%
TEXAS	5.3%	0.0%	0.0%	1.7%	2.0%
UTAH	5.3%	0.0%	0.0%	1.7%	2.0%
VERMONT	5.3%	0.0%	5.3%	0.0%	2.0%
VIRGINIA	5.3%	0.0%	5.3%	0.0%	2.0%
WASHINGTON	0.0%	0.0%	5.3%	1.7%	2.0%
WEST VIRGINIA	0.0%	0.0%	0.0%	3.4%	2.0%
WISCONSIN	5.3%	0.0%	0.0%	1.7%	2.0%
WYOMING	5.3%	0.0%	0.0%	1.7%	2.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Examination of the tables reveals very strong Democratic support for the Kennedy bill. Roughly 82% of House Democrats voted in support of the Kennedy tax cut at every opportunity, whether in directly voting for the bill or in voting against moves to kill or weaken it. Only 1% of House Republicans voted that way.

If one considers the distribution of voting support across parties, the Democratic support for the Kennedy bill appears even stronger. Of those always voting for the Kennedy tax cut, 99.5% were Democrats. On the other side, of those who never voted for the Kennedy Tax Cut, almost 84% were Republicans. This strong Democratic support almost ensured passage of the bill since House Democrats accounted for 59% of the votes as compared to the Republican's 40%.

In the Senate, these cumulative vote patterns indicate a slightly more bipartisan tinge, but a still heavily Democratic bill. 74% of Senate Democrats voted in support of the Kennedy tax cut at all important junctures, while only 27% of Republicans voted that way. While Democratic support in the Senate was a little less monolithic than in the House, somewhat stronger Republican support, and the simple fact that Democratic proportions in the Senate were even greater than in the House, guaranteed that the bill would pass.

Consideration of each separate vote on the House and Senate floors reveals some small erosion in Democratic support, and significant erosion in Republican opposition. A

Republican-inspired motion in the Senate to require a repeal of the tax cut if the FY65 budget exceeded \$100 billion, failed by a vote of 34 to 61. 72% of the Republicans supported the motion, joined by 20% of the Democrats.

After Kennedy's assassination, Republican opposition to the tax cut melted away. Roughly 70% of Senate Republicans voted for both the bill and the conference report, while 84% of the Democrats voted "yes" in both instances. Republican support was a little weaker in the House, but Democratic support was even stronger. 92% of Democrats voted "yes" to the conference report, while 63% of Republicans so cast their vote. Once the bill gathered momentum, a tax cut was just too attractive to vote against, particularly since its passage seemed certain at that point, and few wanted to stand in the way of a sure thing.

This initial partisan solidarity masks a few important facts. First, the support for the Kennedy Tax Cut, particularly among Southern Democrats, was far softer than the floor votes indicate. House Ways and Means Chairman Wilbur Mills of Arkansas was a fairly reluctant champion of the measure and made a number of changes in Committee to get the bill to the floor. In addition, Senator Harry Flood Byrd of Virginia, Chairman of the Senate Finance Committee, was opposed to the bill initially, and dragged out Finance hearings in an effort to allow opposition to a tax cut to build.

Both Mills and Byrd demanded some sort of spending restraint to be demonstrated before allowing the bill to be enacted. Mills ended up being satisfied with a preface to the House bill urging future spending restraint and a statement by the President subscribing to cutting spending in future administrative budgets. Byrd was not so easily satisfied, and ultimately President Johnson actually had to deliver a FY65 budget below \$98 billion. Without Mills' and Byrd's support, and their power to mobilize Southern and conservative Democrats, the bill might very well not have passed.

The tables above reinforce this point. In the House, outside of Alaska and Hawaii, two-thirds of the Desert West states always voted for the Kennedy Tax Cut. The Pacific Coast was the third most supportive region, followed very closely by the South: majorities of these members always voted for the bill, but the margin was only around 5%, not overwhelming, and not too different from the 52% majority rendered by the more Republican-leaning New England representatives.

The Farm states, a largely Republican region, were heavily opposed to the bill - just below 15% of their membership always voted for the bill, and a bit less than half always voted against it. Two-thirds of Farm State representatives voted for the measure one or no times. The Midwest was also unsupportive, with slightly over one-third voting for the Kennedy measure at every opportunity, not quite

matched by the just less than one-third always voting against it. Mountain West and Mid-Atlantic States could not quite muster majorities to approve the bill at every turn.

While the South voted generally in favor of the bill as a bloc, there was significant opposition, particularly for a region that was nominally almost entirely Democratic. This is the so-called "conservative coalition" of Southern Democrats and Republicans at work. And when weighting these regional majorities and minorities for population, a more multiregional picture of opposition and support emerges.

For example, while Farm states were heavily opposed to the tax cut, their smaller numbers of representatives meant that they counted for relatively less of the opposition coalition. 15% of the coalition voting "no" consistently were from Farm States, but 35% of that coalition was from the Midwest and 20% were from the South, regions which, taken as a whole, were not so negative. Indeed, the Southern votes, not the Farm-belt votes, were the second largest bloc of votes voting against Kennedy at every opportunity, and the largest bloc voting against it 2 out of 3 times (meaning for certain a vote cast against either the House bill or the conference report). This result occurred because the Farm states accounted for only 6% of the votes in the House, while the Midwest accounted for 20% and the South accounted for 24%. The minority voting "no" in both those regions added up to sizeable relative blocs of opposition.

The coalition carrying the bill to passage was equally multiregional. Southern votes accounted for 27.5% of those always cast favorably, rounded out by the Mid-Atlantic at 18.5%, the Midwest at 15.6%, the Pacific States at 12.8% and the Border States at 11.8%. The dynamics of support were similar to that of opposition - although neither the Midwest or Mid-Atlantic delivered a majority of their regional votes consistently to Kennedy (and the Midwest did not even do so when including votes cast in favor 2 out of 3 times), close to half of a large region translated into a large number of votes, votes which were critical to Kennedy's success.

Despite the multiregional nature of both opposition and support, the tables show that the battleground was centered on the Eastern seaboard, the Midwest, California, and Texas. Simply put, the lion's share of the votes were in those areas, and Kennedy had to secure most of them to win. When examining the top ten States mentioned above, this objective is shown to have largely been met. Majorities of the California, Texas, and Florida delegations voted in favor of the tax cut every time, while Massachusetts split exactly, and Illinois, New Jersey, New York and Pennsylvania gave close to majorities. When expanding the count to include both representatives who voted for the measure every time and those who so voted 2 out of 3 times, only Illinois and Ohio were still overall nay-sayers. In general, 49% of all House members voted for the Kennedy tax cut at every opportunity while 16% voted for it in

2 out of 3 opportunities (many of these being Republicans who voted for their party's recommittal motion and then voted for the tax bill on the floor and after the conference).

Of course regions were more equally balanced in the Senate than in the House because each State is guaranteed two senators, no matter what its population size. As a region, the South commanded 22 seats, but the Kennedy Administration got only 13 of these seats two or three times out of three. Fortunately, the Farm Belt, which commanded 12 out of 100 seats in the Senate as opposed to only 6% of the votes in the House, delivered 8 of its seats at least two-thirds of the time to the Kennedy bill, and the strong support of other regions outweighed what opposition remained in the West and the Farm Belt.

In the Senate, the Border, Mid-Atlantic and New England regions were even stronger supporters of the bill than in the House. Alaska and Hawaii were equally strong in their support in both chambers of Congress. But the Midwest was also a strong bloc in favor of the bill, unlike the situation in the House. However, Senate opposition in the West and on the Pacific Coast was somewhat stronger than in the House. And there was significant Southern opposition to the bill. Because of the more equal weighting of regions, Kennedy required, and was fortunate to have, a somewhat broader regional backing. The larger Democratic majority helped as well.

The Gramm-Rudman Coalitions

The partisan coalitions behind Gramm-Rudman were in some ways a mirror image of the party support for the Kennedy tax cut, with the Democrats and Republicans switching places. Tables 5-24 through 5-29 show the partisan, regional and State breakdowns of votes on Gramm-Rudman in the House, while Tables 5-30 through 5-35 show the same information for the Senate.

The votes on Gramm-Rudman were slightly more complicated than those on the Kennedy Tax Cut and so the vote tabulations are also a little more complicated. The only vote which the House took on the measure which was a true policy vote as opposed to a procedural gambit was the vote on the Gramm-Rudman conference report. The House did not vote at all on the initial Senate bill, going immediately into conference, and took an almost strict party-line vote to accept the Senate amendment after the first conference broke up (Democrats voting for, Republicans against) in order to proceed to a second conference. Hence the tables for the House vote refer only to the single vote on the conference report. The Senate, on the other hand, had an opportunity to vote on the amendment itself, the debt limit increase with the amendment attached, and the conference report. These three votes are characterized like the three votes on the Kennedy Tax Cut, as described above.

TABLE 5-24

OF HOUSE
MEMBERS ...THIS PROPORTION VOTED THIS WAY
WHO WERE... ON FINAL PASSAGE OF GRAMM-RUDMAN

	No	Yes	No Vote	TOTAL
-----	-----	-----	-----	-----
Democrats	51.8%	47.5%	0.8%	100.0%
Republicans	13.3%	85.0%	1.7%	100.0%
-----	-----	-----	-----	-----
TOTAL	35.9%	63.0%	1.1%	100.0%

TABLE 5-25

...THIS
PERCENT OF THOSE HOUSE MEMBERS WHO VOTED THIS WAY
WERE... ON FINAL PASSAGE OF GRAMM-RUDMAN...

	No	Yes	No Vote	TOTAL
-----	-----	-----	-----	-----
Democrats	84.6%	44.2%	40.0%	58.6%
Republicans	15.4%	55.8%	60.0%	41.4%
-----	-----	-----	-----	-----
TOTAL	100.0%	100.0%	100.0%	100.0%

TABLE 5-26

OF HOUSE MEMBERS FROM THESE REGIONS...	...THIS PERCENT VOTED THIS WAY ON FINAL PASSAGE OF GRAMM-RUDMAN			
	No	Yes	No Vote	TOTAL
BORDER	38.2%	61.8%	0.0%	100.0%
FARM	29.2%	70.8%	0.0%	100.0%
MID-ATLANTIC	51.4%	48.6%	0.0%	100.0%
MIDWEST	35.0%	62.5%	2.5%	100.0%
NEW ENGLAND	45.8%	45.8%	8.3%	100.0%
OUTER	0.0%	100.0%	0.0%	100.0%
PACIFIC	51.7%	46.6%	1.7%	100.0%
SOUTH	22.4%	77.6%	0.0%	100.0%
WEST-DESERT	10.0%	90.0%	0.0%	100.0%
WEST-MOUNTAIN	21.4%	78.6%	0.0%	100.0%
TOTAL	35.9%	63.0%	1.1%	100.0%

TABLE 5-27

...THIS PERCENT THESE REGIONS	OF HOUSE MEMBERS WHO VOTED THIS WAY ON WAS FROM FINAL PASSAGE OF GRAMM-RUDMAN...			
	No	Yes	No Vote	TOTAL
BORDER	8.3%	7.7%	0.0%	7.8%
FARM	4.5%	6.2%	0.0%	5.5%
MID-ATLANTIC	23.7%	12.8%	0.0%	16.6%
MIDWEST	17.9%	18.2%	40.0%	18.4%
NEW ENGLAND	7.1%	4.0%	40.0%	5.5%
OUTER	0.0%	1.1%	0.0%	0.7%
PACIFIC	19.2%	9.9%	20.0%	13.3%
SOUTH	16.7%	32.8%	0.0%	26.7%
WEST-DESERT	0.6%	3.3%	0.0%	2.3%
WEST-MOUNTAIN	1.9%	4.0%	0.0%	3.2%
TOTAL	100.0%	100.0%	100.0%	100.0%

TABLE 5-28

OF HOUSE MEMBERS FROM THESE STATES...	...THIS PERCENT VOTED IN THE FOLLOWING WAY ON FINAL PASSAGE OF GRAMM-RUDMAN			TOTAL
	No	Yes	No Vote	
ALABAMA	14.3%	85.7%	0.0%	100.0%
ALASKA	0.0%	100.0%	0.0%	100.0%
ARIZONA	20.0%	80.0%	0.0%	100.0%
ARKANSAS	25.0%	75.0%	0.0%	100.0%
CALIFORNIA	57.8%	40.0%	2.2%	100.0%
COLORADO	16.7%	83.3%	0.0%	100.0%
CONNECTICUT	33.3%	50.0%	16.7%	100.0%
DELAWARE	0.0%	100.0%	0.0%	100.0%
FLORIDA	31.6%	68.4%	0.0%	100.0%
GEORGIA	0.0%	100.0%	0.0%	100.0%
HAWAII	0.0%	100.0%	0.0%	100.0%
IDAHO	0.0%	100.0%	0.0%	100.0%
ILLINOIS	40.9%	54.5%	4.5%	100.0%
INDIANA	20.0%	80.0%	0.0%	100.0%
IOWA	33.3%	66.7%	0.0%	100.0%
KANSAS	20.0%	80.0%	0.0%	100.0%
KENTUCKY	28.6%	71.4%	0.0%	100.0%
LOUISIANA	25.0%	75.0%	0.0%	100.0%
MAINE	0.0%	100.0%	0.0%	100.0%
MARYLAND	75.0%	25.0%	0.0%	100.0%
MASSACHUSETTS	72.7%	18.2%	9.1%	100.0%
MICHIGAN	44.4%	50.0%	5.6%	100.0%
MINNESOTA	37.5%	62.5%	0.0%	100.0%
MISSISSIPPI	40.0%	60.0%	0.0%	100.0%
MISSOURI	22.2%	77.8%	0.0%	100.0%
MONTANA	100.0%	0.0%	0.0%	100.0%
NEBRASKA	0.0%	100.0%	0.0%	100.0%
NEVADA	0.0%	100.0%	0.0%	100.0%
NEW HAMPSHIRE	0.0%	100.0%	0.0%	100.0%
NEW JERSEY	57.1%	42.9%	0.0%	100.0%
NEW MEXICO	0.0%	100.0%	0.0%	100.0%
NEW YORK	58.8%	41.2%	0.0%	100.0%
NORTH CAROLINA	18.2%	81.8%	0.0%	100.0%

TABLE 5-28 (Continued)

OF HOUSE MEMBERS ...THIS PERCENT VOTED IN THE FOLLOWING WAY FROM THESE ON FINAL PASSAGE OF GRAMM-RUDMAN STATES...				
	No	Yes	No Vote	TOTAL
NORTH DAKOTA	100.0%	0.0%	0.0%	100.0%
OHIO	23.8%	76.2%	0.0%	100.0%
OKLAHOMA	16.7%	83.3%	0.0%	100.0%
OREGON	20.0%	80.0%	0.0%	100.0%
PENNSYLVANIA	39.1%	60.9%	0.0%	100.0%
RHODE ISLAND	50.0%	50.0%	0.0%	100.0%
SOUTH CAROLINA	50.0%	50.0%	0.0%	100.0%
SOUTH DAKOTA	0.0%	100.0%	0.0%	100.0%
TENNESSEE	11.1%	88.9%	0.0%	100.0%
TEXAS	22.2%	77.8%	0.0%	100.0%
UTAH	0.0%	100.0%	0.0%	100.0%
VERMONT	0.0%	100.0%	0.0%	100.0%
VIRGINIA	20.0%	80.0%	0.0%	100.0%
WASHINGTON	37.5%	62.5%	0.0%	100.0%
WEST VIRGINIA	50.0%	50.0%	0.0%	100.0%
WISCONSIN	44.4%	55.6%	0.0%	100.0%
WYOMING	0.0%	100.0%	0.0%	100.0%
TOTAL	35.9%	63.0%	1.1%	100.0%

TABLE 5-29

...THIS PERCENT WAS FROM THESE STATES	OF HOUSE MEMBERS VOTING THIS WAY ON FINAL PASSAGE OF GRAMM RUDMAN...			
	No	Yes	No Vote	TOTAL
ALABAMA	0.6%	2.2%	0.0%	1.6%
ALASKA	0.0%	0.4%	0.0%	0.2%
ARIZONA	0.6%	1.5%	0.0%	1.1%
ARKANSAS	0.6%	1.1%	0.0%	0.9%
CALIFORNIA	16.7%	6.6%	20.0%	10.3%
COLORADO	0.6%	1.8%	0.0%	1.4%
CONNECTICUT	1.3%	1.1%	20.0%	1.4%
DELAWARE	0.0%	0.4%	0.0%	0.2%
FLORIDA	3.8%	4.7%	0.0%	4.4%
GEORGIA	0.0%	3.6%	0.0%	2.3%
HAWAII	0.0%	0.7%	0.0%	0.5%
IDAHO	0.0%	0.7%	0.0%	0.5%
ILLINOIS	5.8%	4.4%	20.0%	5.1%
INDIANA	1.3%	2.9%	0.0%	2.3%
IOWA	1.3%	1.5%	0.0%	1.4%
KANSAS	0.6%	1.5%	0.0%	1.1%
KENTUCKY	1.3%	1.8%	0.0%	1.6%
LOUISIANA	1.3%	2.2%	0.0%	1.8%
MAINE	0.0%	0.7%	0.0%	0.5%
MARYLAND	3.8%	0.7%	0.0%	1.8%
MASSACHUSETTS	5.1%	0.7%	20.0%	2.5%
MICHIGAN	5.1%	3.3%	20.0%	4.1%
MINNESOTA	1.9%	1.8%	0.0%	1.8%
MISSISSIPPI	1.3%	1.1%	0.0%	1.1%
MISSOURI	1.3%	2.6%	0.0%	2.1%
MONTANA	1.3%	0.0%	0.0%	0.5%
NEBRASKA	0.0%	1.1%	0.0%	0.7%
NEVADA	0.0%	0.7%	0.0%	0.5%
NEW HAMPSHIRE	0.0%	0.7%	0.0%	0.5%
NEW JERSEY	5.1%	2.2%	0.0%	3.2%
NEW MEXICO	0.0%	1.1%	0.0%	0.7%
NEW YORK	12.8%	5.1%	0.0%	7.8%
NORTH CAROLINA	1.3%	3.3%	0.0%	2.5%

TABLE 5-29 (Continued)

...THIS PERCENT WAS FROM THESE STATES	OF HOUSE MEMBERS VOTING THIS WAY ON FINAL PASSAGE OF GRAMM RUDMAN...			TOTAL
	No	Yes	No Vote	
NORTH DAKOTA	0.6%	0.0%	0.0%	0.2%
OHIO	3.2%	5.8%	0.0%	4.8%
OKLAHOMA	0.6%	1.8%	0.0%	1.4%
OREGON	0.6%	1.5%	0.0%	1.1%
PENNSYLVANIA	5.8%	5.1%	0.0%	5.3%
RHODE ISLAND	0.6%	0.4%	0.0%	0.5%
SOUTH CAROLINA	1.9%	1.1%	0.0%	1.4%
SOUTH DAKOTA	0.0%	0.4%	0.0%	0.2%
TENNESSEE	0.6%	2.9%	0.0%	2.1%
TEXAS	3.8%	7.7%	0.0%	6.2%
UTAH	0.0%	1.1%	0.0%	0.7%
VERMONT	0.0%	0.4%	0.0%	0.2%
VIRGINIA	1.3%	2.9%	0.0%	2.3%
WASHINGTON	1.9%	1.8%	0.0%	1.8%
WEST VIRGINIA	1.3%	0.7%	0.0%	0.9%
WISCONSIN	2.6%	1.8%	0.0%	2.1%
WYOMING	0.0%	0.4%	0.0%	0.2%
TOTAL	100.0%	100.0%	100.0%	100.0%

TABLE 5-30

OF THE SENATORS WHO WERE...	...THIS PERCENT VOTED FOR GRAMM-RUDMAN				
	Never	Once	Twice	Always	TOTAL
-----	-----	-----	-----	-----	-----
Democrats	33.0%	17.0%	30.0%	20.0%	100.0%
Independents	100.0%	0.0%	0.0%	0.0%	100.0%
Republicans	8.0%	4.0%	30.0%	58.0%	100.0%
-----	-----	-----	-----	-----	-----
TOTAL	20.0%	10.0%	30.0%	40.0%	100.0%

TABLE 5-31

...THIS PERCENT WERE...	OF THE SENATORS WHO VOTED FOR GRAMM-RUDMAN....				
	Never	Once	Twice	Always	TOTAL
-----	-----	-----	-----	-----	-----
Democrats	75.0%	80.0%	47.0%	23.0%	46.0%
Independents	5.0%	0.0%	0.0%	0.0%	1.0%
Republicans	20.0%	20.0%	53.0%	78.0%	53.0%
-----	-----	-----	-----	-----	-----
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 5-32

SENATORS FROM THESE REGIONS...	VOTED FOR GRAMM-RUDMAN THIS OFTEN...				TOTAL
	Never	Once	Twice	Always	
BORDER	30.0%	10.0%	20.0%	40.0%	100.0%
FARM	25.0%	17.0%	25.0%	33.0%	100.0%
MID-ATLANTIC	38.0%	0.0%	25.0%	38.0%	100.0%
MIDWEST	20.0%	10.0%	30.0%	40.0%	100.0%
NEW ENGLAND	17.0%	17.0%	25.0%	42.0%	100.0%
OUTER	50.0%	0.0%	0.0%	50.0%	100.0%
PACIFIC	33.0%	0.0%	0.0%	67.0%	100.0%
SOUTH	5.0%	9.0%	55.0%	32.0%	100.0%
WEST-DESERT	17.0%	17.0%	33.0%	33.0%	100.0%
WEST-MOUNTAIN	10.0%	10.0%	30.0%	50.0%	100.0%
TOTAL	20.0%	10.0%	30.0%	40.0%	100.0%

TABLE 5-33

...THIS PERCENT WAS FROM THESE REGIONS	OF THE SENATORS WHO VOTED FOR GRAMM-RUDMAN				TOTAL
	Never	Once	Twice	Always	
BORDER	15.0%	10.0%	7.0%	10.0%	10.0%
FARM	15.0%	20.0%	10.0%	10.0%	12.0%
MID-ATLANTIC	15.0%	0.0%	7.0%	8.0%	8.0%
MIDWEST	10.0%	10.0%	10.0%	10.0%	10.0%
NEW ENGLAND	10.0%	20.0%	10.0%	13.0%	12.0%
OUTER	10.0%	0.0%	0.0%	5.0%	4.0%
PACIFIC	10.0%	0.0%	0.0%	10.0%	6.0%
SOUTH	5.0%	20.0%	40.0%	18.0%	22.0%
WEST-DESERT	5.0%	10.0%	7.0%	5.0%	6.0%
WEST-MOUNTAIN	5.0%	10.0%	10.0%	13.0%	10.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 5-34

OF SENATORS
WHO WERE ...THIS PERCENT VOTED FOR GRAMM-RUDMAN...
FROM THESE
STATES...

	Never	Once	Twice	Always	TOTAL
ALABAMA	0.0%	0.0%	100.0%	0.0%	100.0%
ALASKA	0.0%	0.0%	0.0%	100.0%	100.0%
ARIZONA	0.0%	50.0%	50.0%	0.0%	100.0%
ARKANSAS	0.0%	50.0%	50.0%	0.0%	100.0%
CALIFORNIA	50.0%	0.0%	0.0%	50.0%	100.0%
COLORADO	50.0%	0.0%	0.0%	50.0%	100.0%
CONNECTICUT	50.0%	0.0%	50.0%	0.0%	100.0%
DELAWARE	0.0%	0.0%	100.0%	0.0%	100.0%
FLORIDA	0.0%	0.0%	100.0%	0.0%	100.0%
GEORGIA	0.0%	0.0%	50.0%	50.0%	100.0%
HAWAII	100.0%	0.0%	0.0%	0.0%	100.0%
IDAHO	0.0%	0.0%	100.0%	0.0%	100.0%
ILLINOIS	0.0%	0.0%	50.0%	50.0%	100.0%
INDIANA	0.0%	0.0%	0.0%	100.0%	100.0%
IOWA	50.0%	0.0%	50.0%	0.0%	100.0%
KANSAS	50.0%	0.0%	0.0%	50.0%	100.0%
KENTUCKY	0.0%	0.0%	50.0%	50.0%	100.0%
LOUISIANA	50.0%	0.0%	50.0%	0.0%	100.0%
MAINE	0.0%	50.0%	0.0%	50.0%	100.0%
MARYLAND	100.0%	0.0%	0.0%	0.0%	100.0%
MASSACHUSETTS	0.0%	0.0%	0.0%	100.0%	100.0%
MICHIGAN	50.0%	0.0%	0.0%	50.0%	100.0%
MINNESOTA	0.0%	0.0%	0.0%	100.0%	100.0%
MISSISSIPPI	0.0%	0.0%	100.0%	0.0%	100.0%
MISSOURI	0.0%	50.0%	0.0%	50.0%	100.0%
MONTANA	0.0%	50.0%	50.0%	0.0%	100.0%
NEBRASKA	50.0%	50.0%	0.0%	0.0%	100.0%
NEVADA	0.0%	0.0%	50.0%	50.0%	100.0%
NEW HAMPSHIRE	0.0%	0.0%	50.0%	50.0%	100.0%
NEW JERSEY	100.0%	0.0%	0.0%	0.0%	100.0%
NEW MEXICO	50.0%	0.0%	0.0%	50.0%	100.0%
NEW YORK	50.0%	0.0%	0.0%	50.0%	100.0%
NORTH CAROLINA	0.0%	50.0%	0.0%	50.0%	100.0%

TABLE 5-34 (Continued)

OF SENATORS WHO WERE ...THIS PERCENT VOTED FOR GRAMM-RUDMAN... FROM THESE STATES...					
	Never	Once	Twice	Always	TOTAL
NORTH DAKOTA	0.0%	50.0%	50.0%	0.0%	100.0%
OHIO	50.0%	50.0%	0.0%	0.0%	100.0%
OKLAHOMA	0.0%	0.0%	50.0%	50.0%	100.0%
OREGON	50.0%	0.0%	0.0%	50.0%	100.0%
PENNSYLVANIA	0.0%	0.0%	0.0%	100.0%	100.0%
RHODE ISLAND	50.0%	0.0%	0.0%	50.0%	100.0%
SOUTH CAROLINA	0.0%	0.0%	0.0%	100.0%	100.0%
SOUTH DAKOTA	0.0%	0.0%	50.0%	50.0%	100.0%
TENNESSEE	0.0%	0.0%	50.0%	50.0%	100.0%
TEXAS	0.0%	0.0%	50.0%	50.0%	100.0%
UTAH	0.0%	0.0%	0.0%	100.0%	100.0%
VERMONT	0.0%	50.0%	50.0%	0.0%	100.0%
VIRGINIA	0.0%	0.0%	50.0%	50.0%	100.0%
WASHINGTON	0.0%	0.0%	0.0%	100.0%	100.0%
WEST VIRGINIA	50.0%	0.0%	0.0%	50.0%	100.0%
WISCONSIN	0.0%	0.0%	100.0%	0.0%	100.0%
WYOMING	0.0%	0.0%	0.0%	100.0%	100.0%
TOTAL	20.0%	10.0%	30.0%	40.0%	100.0%

TABLE 5-35

...THIS PERCENT WAS FROM THESE STATES	OF SENATORS WHO VOTED FOR GRAMM-RUDMAN...				TOTAL
	Never	Once	Twice	Always	
ALABAMA	0.0%	0.0%	7.0%	0.0%	2.0%
ALASKA	0.0%	0.0%	0.0%	5.0%	2.0%
ARIZONA	0.0%	10.0%	3.0%	0.0%	2.0%
ARKANSAS	0.0%	10.0%	3.0%	0.0%	2.0%
CALIFORNIA	5.0%	0.0%	0.0%	3.0%	2.0%
COLORADO	5.0%	0.0%	0.0%	3.0%	2.0%
CONNECTICUT	5.0%	0.0%	3.0%	0.0%	2.0%
DELAWARE	0.0%	0.0%	7.0%	0.0%	2.0%
FLORIDA	0.0%	0.0%	7.0%	0.0%	2.0%
GEORGIA	0.0%	0.0%	3.0%	3.0%	2.0%
HAWAII	10.0%	0.0%	0.0%	0.0%	2.0%
IDAHO	0.0%	0.0%	7.0%	0.0%	2.0%
ILLINOIS	0.0%	0.0%	3.0%	3.0%	2.0%
INDIANA	0.0%	0.0%	0.0%	5.0%	2.0%
IOWA	5.0%	0.0%	3.0%	0.0%	2.0%
KANSAS	5.0%	0.0%	0.0%	3.0%	2.0%
KENTUCKY	0.0%	0.0%	3.0%	3.0%	2.0%
LOUISIANA	5.0%	0.0%	3.0%	0.0%	2.0%
MAINE	0.0%	10.0%	0.0%	3.0%	2.0%
MARYLAND	10.0%	0.0%	0.0%	0.0%	2.0%
MASSACHUSETTS	0.0%	0.0%	0.0%	5.0%	2.0%
MICHIGAN	5.0%	0.0%	0.0%	3.0%	2.0%
MINNESOTA	0.0%	0.0%	0.0%	5.0%	2.0%
MISSISSIPPI	0.0%	0.0%	7.0%	0.0%	2.0%
MISSOURI	0.0%	10.0%	0.0%	3.0%	2.0%
MONTANA	0.0%	10.0%	3.0%	0.0%	2.0%
NEBRASKA	5.0%	10.0%	0.0%	0.0%	2.0%
NEVADA	0.0%	0.0%	3.0%	3.0%	2.0%
NEW HAMPSHIRE	0.0%	0.0%	3.0%	3.0%	2.0%
NEW JERSEY	10.0%	0.0%	0.0%	0.0%	2.0%
NEW MEXICO	5.0%	0.0%	0.0%	3.0%	2.0%
NEW YORK	5.0%	0.0%	0.0%	3.0%	2.0%
NORTH CAROLINA	0.0%	10.0%	0.0%	3.0%	2.0%

TABLE 5-35 (Continued)

...THIS PERCENT WAS FROM THESE STATES	OF SENATORS WHO VOTED FOR GRAMM-RUDMAN...				
	Never	Once	Twice	Always	TOTAL
NORTH DAKOTA	0.0%	10.0%	3.0%	0.0%	2.0%
OHIO	5.0%	10.0%	0.0%	0.0%	2.0%
OKLAHOMA	0.0%	0.0%	3.0%	3.0%	2.0%
OREGON	5.0%	0.0%	0.0%	3.0%	2.0%
PENNSYLVANIA	0.0%	0.0%	0.0%	5.0%	2.0%
RHODE ISLAND	5.0%	0.0%	0.0%	3.0%	2.0%
SOUTH CAROLINA	0.0%	0.0%	0.0%	5.0%	2.0%
SOUTH DAKOTA	0.0%	0.0%	3.0%	3.0%	2.0%
TENNESSEE	0.0%	0.0%	3.0%	3.0%	2.0%
TEXAS	0.0%	0.0%	3.0%	3.0%	2.0%
UTAH	0.0%	0.0%	0.0%	5.0%	2.0%
VERMONT	0.0%	10.0%	3.0%	0.0%	2.0%
VIRGINIA	0.0%	0.0%	3.0%	3.0%	2.0%
WASHINGTON	0.0%	0.0%	0.0%	5.0%	2.0%
WEST VIRGINIA	5.0%	0.0%	0.0%	3.0%	2.0%
WISCONSIN	0.0%	0.0%	7.0%	0.0%	2.0%
WYOMING	0.0%	0.0%	0.0%	5.0%	2.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

As the tables reveal, House Democrats voted as a majority against the conference report, while Republicans voted as a majority for it. In fact, 85% of the no votes came from Democrats, while only 15% came from Republicans. Nonetheless, Democrats opposed the bill by only a bare majority. 47% of Democrats voted for the bill, ensuring its passage in the overwhelmingly Democratic House. For all their strong support, Republican votes only accounted for 35% of all votes in the House for Gramm-Rudman, mainly because they controlled only 41% of all House votes. Democrats accounted for 59% of the total votes in the House and they delivered roughly half of those votes, 28% of all House votes, to the Gramm-Rudman measure.

But the real action was taking place in the Senate, where the measure originated. Here Republicans controlled the chamber 53 to 46 with 1 Democratic-allied Independent. However, even here, the margin of control was not large enough, given less than monolithic Republican support, to pass the measure without significant Democratic votes. 50% of Senate Democrats voted for Gramm-Rudman at least two out of three times, while 12% of Senate Republicans voted against the measure at least as often. In pure numbers this meant that only 47 Republican Senators voted so often for the measure, and only 31 of these voted "yes" on every occasion. 23 Democrats voted two out of three times for Gramm-Rudman, 9 voting "yes" on every occasion, providing the necessary margin

of victory.

In this sense, Gramm-Rudman was a more truly bipartisan bill than the Kennedy tax cut. Kennedy's party controlled both Houses by a significant margin and the opposition blocs largely came from the Republican party. Although the final passage of the bill was heavily bipartisan, its initial passage in the House relied almost entirely on Democratic support, and the fact remains that the bill could have been passed, though barely, by existing Democratic votes alone.

However, the dynamics of the Gramm-Rudman vote were a bit different. The Congress was divided, with Democrats controlling the House and Republicans controlling the Senate, with a Republican in the White House. This fact alone ensured that the bill's coalition for passage would have to cut across party lines. Moreover, as noted above, Republican support was not monolithic in the Senate, and Republican control of that chamber rested upon a mere 3 votes. Democratic support was thus essential even in the Senate.

The Senate approved Gramm and Rudman and Hollings' amendment to the debt limit increase on October 9, 1985 by a vote of 75 to 24, with 57% of the Democrats supporting the measure, and 92% of Republicans voting for it. That was to be the most bipartisan vote on the measure, but not the only one. The passage of the debt limit bill itself by the Senate, with the Gramm-Rudman amendment attached, garnered only 31% of Democrats and 93% of Republicans. The conference report,

however, attracted 50% of the Senate Democrats and 48% of House Democrats. By that time, Republican support had faded a bit - 81% of Senate Republicans voted for the debt limit increase, and 86% of House Republicans so voted.

Several interesting parallels and contrasts are revealed when examining the regional patterns in Gramm-Rudman. The contrast is that, particularly in the House, almost no region voted against Gramm-Rudman with a majority. Only the Mid-Atlantic and the Pacific Coast delegations voted against the conference report, and only by bare majorities. New England was divided. All other regions in the House were strongly for the bill, the West and the South being particularly strong in their support.

Senate regional patterns were a bit different. Reflecting the Republican Senate majority, no region, save the one containing Alaska and Hawaii, delivered a majority against the bill two out of three times. Interestingly, the strongest opponents of the bill, besides Hawaii, were the Farm states which had previously stood firmly against functional finance in the Kennedy mold. Significant minorities voted against the bill in the Border and Mid-Atlantic States as well.

Two obvious reasons arise for the differences between House and Senate voting patterns. For one, the Senate was controlled by Republicans. This fact alone implied that more States would vote for Gramm-Rudman and hence that regions, as collections of States, would vote more heavily in favor of the

bill than in the Senate. This dynamic was reinforced by that fact that States only have two Senators, but usually many more representatives, and these Senators are elected much less frequently than House Members. Since the opposition to Gramm-Rudman was more concentrated among Democrats, a State which happened to be represented by two Democratic Senators was much more likely to be completely against Gramm-Rudman than the House delegation which was usually larger and more heterogenous. The same reasoning applies in reverse to Republican delegations.

Another reason for the discrepancy is the differing number and types of votes on Gramm-Rudman that occurred in the Senate and the House. In the Kennedy Tax Cut, there was a symmetry in major votes - both Houses voted on a bill, a conference report, and a motion to effectively kill the bill before it. On Gramm-Rudman, the House never actually voted on the same measure that the Senate voted on, except for the conference report. Instead, the House only voted on the conference report and the acceptance of the Senate amendment, the latter, as explained above, being largely a procedural motion in actual fact. The Senate, by contrast, voted on the amendment itself, the debt-limit increase with the amendment attached, and the conference report. Senators faced votes with different ramifications than the House. In the House, the votes had more finality to them: the Conference had occurred and a vote for the report meant that the measure

would become law. By contrast, Senators could vote yes for Gramm-Rudman as a symbolic measure to begin with, hoping and believing that it would not ultimately come to conference. In theory at least, there was more reason for a Senator to switch votes than a House Member given the different agendas that legislative leaders offered them.

As mentioned previously, a small number of big States dominated the share of votes in the House. Unlike the vote on the Kennedy Tax Cut, however, the two biggest States, California and New York, rendered majorities against the bill. Florida and Texas rendered majorities for the measure. The other big States were more divided. As with the Kennedy bill, broad regional support was required for passage, and in this case, because of the overall opposition of the two largest States, support had to be garnered from more of the smaller States.

Conclusion

The analysis in this chapter has shown some significant similarities and some significant differences between the Kennedy Tax Cut and the Gramm-Rudman Act. Both bills ultimately attracted fairly wide regional and bipartisan support in the end. However, the Kennedy bill was more of a Democratic measure and, in fact, did not require the Republican support it garnered in the end to pass. The Gramm-Rudman measure always required the support of both parties if it were to succeed.

In addition, there were shifts in both the relative strength of the regions in terms of voting power in the House (though obviously not in the Senate) and shifts in the positions taken by those regions on fiscal activism. Kennedy got his bill through by garnering significant support in the areas he needed them, namely the populous Mid-Atlantic, New England and the South. His support was less strong in other regions of the country, but he still managed to gain significant blocs of votes elsewhere. Only the Far West and the Farm Belt were significantly opposed and these regions counted for few votes in any case. In the Senate, where regions were more evenly balanced, and his support from the South in particular less strong, his regional support was broader and his Democratic majority larger, and these strengths help carry the day.

The trends which were nascent in the Kennedy years had blossomed by the time Gramm-Rudman was being debated. The South and the Pacific Coast were now relatively more important than before. The South alone accounted for 27% of all House votes as opposed to 24% in the Kennedy years. The Midwest and the Mid-Atlantic, on the other hand, had declined in importance, from 39% of the votes in the 88th Congress to 35% in the 100th Congress. The Midwest remained a fairly divided region in both partisan terms and in the positions taken on both the Kennedy Tax Cut and Gramm-Rudman. But the South was significantly more Republican and whereas Democratic Party

loyalty had essentially bound a majority of the region to the Kennedy tax cut as a whole in the 1960's, no such loyalty kept the region from supporting Gramm-Rudman in the 1980's. This regional shift, combined with the relative decline of a relatively more liberal Mid-Atlantic and a much more liberal Farm Belt, was probably the key event in changing the course of events from fiscal activism to fiscal straitjacketing.

CHAPTER 6: ECONOMICS AND DEMOGRAPHICS IN FISCAL POLICYMAKING

Presumably, Congressional representatives respond in some way to the needs of their constituents at either the District level in the case of most Congressmen, or at the State level for Senators. These needs are related to the characteristics of those constituents, their education, their earnings, their ages, and their occupations.

At least that is the hypothesis that this chapter will examine. Whereas the previous chapter described the Gramm-Rudman and Kennedy tax cut coalitions in terms of party affiliations and regions, this chapter will analyze those same coalitions in terms of their incomes, professions and ages. Patterns and lack thereof will be identified and some preliminary inferences about the significance of those patterns will be made.

The Rich and Poor, Old and Young, and the Kennedy Tax Cut

Tables 6-1 through 6-12 cross-tabulate the frequency of House votes in favor of the Kennedy Tax Cut (as explained in the previous chapter, this frequency is expressed as votes made in favor no times of three, one time of three, two times of three, and three times of three, the last showing unbroken support for the Kennedy Tax Cut, the first showing unbroken opposition) with classes of district constituent characteristics, i.e. median incomes, median ages, race, urban characteristics, and professional classification. For each constituent characteristic, the breakdown is expressed in

terms of absolute number of votes, and by percentage of votes within the class.

(Notes to following tables: Economic and demographic data in the tables are drawn from U.S. Census tabulations. Data for the 1950's and 1960's were drawn from the Congressional District Data Book: Districts of the 88th Congress, U.S. Department of Commerce, Bureau of the Census, 1964. Data for the 1970's and 1980's were drawn from Congressional Districts in the 1970's and Congressional Districts in the 1980's, both published by Congressional Quarterly, Inc. and containing U.S. Census data.

TABLE 6-1

HOUSE VOTES FOR KENNEDY TAX CUT DISTRIBUTED ACCORDING TO
MEDIAN INCOME OF DISTRICT CONSTITUENTS

(NUMBER OF VOTES)							
INCOME CLASS			Never	Once	Twice	Always	TOTAL
\$1,500	TO	\$2,000	1	0	0	0	1
\$2,000	TO	\$2,500	0	0	1	0	1
\$2,500	TO	\$3,000	3	0	0	9	12
\$3,000	TO	\$3,500	3	2	3	8	16
\$3,500	TO	\$4,000	6	5	5	24	40
\$4,000	TO	\$4,500	11	6	4	16	37
\$4,500	TO	\$5,000	5	8	9	16	38
\$5,000	TO	\$5,500	9	13	5	37	64
\$5,500	TO	\$6,000	13	14	9	27	63
\$6,000	TO	\$6,500	9	9	7	27	52
\$6,500	TO	\$6,558	0	3	2	2	7
TOTAL			79	76	69	211	435

TABLE 6-2

(PERCENT OF VOTES IN EACH INCOME CLASS)

INCOME CLASS			Never	Once	Twice	Always	TOTAL
\$1,500	TO	\$2,000	100.0%	0.0%	0.0%	0.0%	100.0%
\$2,000	TO	\$2,500	0.0%	0.0%	100.0%	0.0%	100.0%
\$2,500	TO	\$3,000	25.0%	0.0%	0.0%	75.0%	100.0%
\$3,000	TO	\$3,500	18.8%	12.5%	18.8%	50.0%	100.0%
\$3,500	TO	\$4,000	15.0%	12.5%	12.5%	60.0%	100.0%
\$4,000	TO	\$4,500	29.7%	16.2%	10.8%	43.2%	100.0%
\$4,500	TO	\$5,000	13.2%	21.1%	23.7%	42.1%	100.0%
\$5,000	TO	\$5,500	14.1%	20.3%	7.8%	57.8%	100.0%
\$5,500	TO	\$6,000	20.6%	22.2%	14.3%	42.9%	100.0%
\$6,000	TO	\$6,500	17.3%	17.3%	13.5%	51.9%	100.0%
\$6,500	TO	\$6,558	0.0%	42.9%	28.6%	28.6%	100.0%
TOTAL			18.2%	17.5%	15.9%	48.5%	100.0%

TABLE 6-3

HOUSE VOTES FOR KENNEDY TAX CUT DISTRIBUTED ACCORDING TO
 MEDIAN AGE OF DISTRICT CONSTITUENTS
 (NUMBER OF VOTES IN EACH MEDIAN AGE CLASS)

MEDIAN AGE CLASS			Never	Once	Twice	Always	TOTAL
20	TO	22	0	0	0	3	3
22	TO	24	2	3	1	6	12
24	TO	26	4	6	2	20	32
26	TO	28	14	13	9	32	68
28	TO	30	22	22	14	36	94
30	TO	32	21	20	17	35	93
32	TO	34	9	9	11	35	64
34	TO	36	5	1	9	27	42
36	TO	38	0	0	3	6	9
38	TO	40	1	1	1	6	9
TOTAL			79	76	69	211	435

TABLE 6-4

(PERCENTAGE OF VOTES IN EACH MEDIAN AGE CLASS)

MEDIAN AGE CLASS			Never	Once	Twice	Always	TOTAL
20	TO	22	0.0%	0.0%	0.0%	100.0%	100.0%
22	TO	24	16.7%	25.0%	8.3%	50.0%	100.0%
24	TO	26	12.5%	18.8%	6.3%	62.5%	100.0%
26	TO	28	20.6%	19.1%	13.2%	47.1%	100.0%
28	TO	30	23.4%	23.4%	14.9%	38.3%	100.0%
30	TO	32	22.6%	21.5%	18.3%	37.6%	100.0%
32	TO	34	14.1%	14.1%	17.2%	54.7%	100.0%
34	TO	36	11.9%	2.4%	21.4%	64.3%	100.0%
36	TO	38	0.0%	0.0%	33.3%	66.7%	100.0%
38	TO	40	11.1%	11.1%	11.1%	66.7%	100.0%
TOTAL			18.2%	17.5%	15.9%	48.5%	100.0%

TABLE 6-5

HOUSE VOTES FOR KENNEDY TAX CUT DISTRIBUTED ACCORDING TO
 PERCENTAGE OF CONSTITUENTS WHO ARE WHITE COLLAR
 (NUMBER OF VOTES IN EACH WHITE COLLAR PERCENTAGE CLASS)

% WHITE COLLAR	Never	Once	Twice	Always	TOTAL
0% TO 10%	1	0	1	5	7
20% TO 30%	7	4	6	25	42
30% TO 40%	46	33	28	96	203
40% TO 50%	16	27	23	64	130
50% TO 60%	7	10	8	19	44
60% TO 70%	2	2	2	2	8
TOTAL	79	76	69	211	435

TABLE 6-6

(PERCENTAGE OF VOTES IN EACH WHITE COLLAR CLASS)

% WHITE COLLAR	Never	Once	Twice	Always	TOTAL
0% TO 10%	14.3%	0.0%	14.3%	71.4%	100.0%
20% TO 30%	16.7%	9.5%	14.3%	59.5%	100.0%
30% TO 40%	22.7%	16.3%	13.8%	47.3%	100.0%
40% TO 50%	12.3%	20.8%	17.7%	49.2%	100.0%
50% TO 60%	15.9%	22.7%	18.2%	43.2%	100.0%
60% TO 70%	25.0%	25.0%	25.0%	25.0%	100.0%
TOTAL	18.2%	17.5%	15.9%	48.5%	100.0%

TABLE 6-7

HOUSE VOTES FOR KENNEDY TAX CUT DISTRIBUTED ACCORDING TO
URBAN SHARE OF DISTRICT

(Number of votes by percentage of district in urban areas)

% URBAN	Never	Once	Twice	Always	TOTAL
0% TO 10%	1	0	1	5	7
10% TO 20%	1	0	1	4	6
20% TO 30%	6	1	2	10	19
30% TO 40%	9	8	9	16	42
40% TO 50%	16	10	5	23	54
50% TO 60%	11	19	8	25	63
60% TO 70%	13	8	10	22	53
70% TO 80%	7	6	4	10	27
80% TO 90%	5	5	11	20	41
90% TO 100%	10	18	18	76	122
TOTAL	79	76	69	211	435

TABLE 6-8

(Percentage of votes by percentage of district in urban areas)

% URBAN	Never	Once	Twice	Always	TOTAL
0% TO 10%	14.3%	0.0%	14.3%	71.4%	100.0%
10% TO 20%	16.7%	0.0%	16.7%	66.7%	100.0%
20% TO 30%	31.6%	5.3%	10.5%	52.6%	100.0%
30% TO 40%	21.4%	19.0%	21.4%	38.1%	100.0%
40% TO 50%	29.6%	18.5%	9.3%	42.6%	100.0%
50% TO 60%	17.5%	30.2%	12.7%	39.7%	100.0%
60% TO 70%	24.5%	15.1%	18.9%	41.5%	100.0%
70% TO 80%	25.9%	22.2%	14.8%	37.0%	100.0%
80% TO 90%	12.2%	12.2%	26.8%	48.8%	100.0%
90% TO 100%	8.2%	14.8%	14.8%	62.3%	100.0%
TOTAL	18.2%	17.5%	15.9%	48.5%	100.0%

TABLE 6-9

HOUSE VOTES FOR KENNEDY TAX CUT DISTRIBUTED BY PERCENTAGE
OF DISTRICT WHICH IS OF BLACK RACE

(Number of votes distributed by percentage of district which
is black)

% BLACK			Never	Once	Twice	Always	TOTAL
-----			-----				
0%	TO	10%	63	56	54	121	294
10%	TO	20%	5	9	5	31	50
20%	TO	30%	5	5	7	30	47
30%	TO	40%	2	5	1	15	23
40%	TO	50%	3	1	2	10	16
50%	TO	60%	1	0	0	1	2
60%	TO	70%	0	0	0	2	2
70%	TO	80%	0	0	0	0	0
80%	TO	90%	0	0	0	1	1
TOTAL			79	76	69	211	435

TABLE 6-10

(Percentage of votes distributed by percentage of district
which is black)

PERCENT BLACK			Never	Once	Twice	Always	TOTAL
-----			-----				
0%	TO	10%	21.4%	19.0%	18.4%	41.2%	100.0%
10%	TO	20%	10.0%	18.0%	10.0%	62.0%	100.0%
20%	TO	30%	10.6%	10.6%	14.9%	63.8%	100.0%
30%	TO	40%	8.7%	21.7%	4.3%	65.2%	100.0%
40%	TO	50%	18.8%	6.3%	12.5%	62.5%	100.0%
50%	TO	60%	50.0%	0.0%	0.0%	50.0%	100.0%
60%	TO	70%	0.0%	0.0%	0.0%	100.0%	100.0%
80%	TO	90%	0.0%	0.0%	0.0%	100.0%	100.0%
TOTAL			18.2%	17.5%	15.9%	48.5%	100.0%

TABLE 6-11

**HOUSE VOTES FOR KENNEDY TAX CUT DISTRIBUTED ACCORDING TO
POPULATION CHANGE IN EACH DISTRICT BETWEEN 1950 AND 1960**

(Number of votes distributed according to percentage population change in each district between 1950 and 1960)

% POP CHANGE 1950-60	Never	Once	Twice	Always	TOTAL
-30% TO -20%	0	0	1	1	2
-20% TO -10%	2	1	2	22	27
-10% TO 0%	10	3	7	38	58
0% TO 10%	20	12	16	40	88
10% TO 20%	12	21	14	34	81
20% TO 30%	12	14	15	34	75
30% TO 40%	5	7	3	8	23
40% TO 50%	1	4	4	5	14
50% TO 60%	2	4	3	3	12
60% TO 70%	4	4	1	4	13
70% TO 80%	4	1	0	6	11
80% TO 90%	2	0	0	3	5
90% TO 100%	3	1	0	0	4
100% TO 110%	0	0	1	2	3
110% TO 120%	0	0	0	1	1
120% TO 130%	1	0	0	0	1
130% TO 140%	0	2	0	0	2
140% TO 150%	0	0	0	1	1
TOTAL	79	76	69	211	435

TABLE 6-12

(Percentage of votes distributed according to percentage population change in each district between 1950 and 1960)

% POP CHANGE 1950-60			Never	Once	Twice	Always	TOTAL
-----			-----				
-30%	TO	-20%	0.0%	0.0%	50.0%	50.0%	100.0%
-20%	TO	-10%	7.4%	3.7%	7.4%	81.5%	100.0%
-10%	TO	0%	17.2%	5.2%	12.1%	65.5%	100.0%
0%	TO	10%	22.7%	13.6%	18.2%	45.5%	100.0%
10%	TO	20%	14.8%	25.9%	17.3%	42.0%	100.0%
20%	TO	30%	16.0%	18.7%	20.0%	45.3%	100.0%
30%	TO	40%	21.7%	30.4%	13.0%	34.8%	100.0%
40%	TO	50%	7.1%	28.6%	28.6%	35.7%	100.0%
50%	TO	60%	16.7%	33.3%	25.0%	25.0%	100.0%
60%	TO	70%	30.8%	30.8%	7.7%	30.8%	100.0%
70%	TO	80%	36.4%	9.1%	0.0%	54.5%	100.0%
80%	TO	90%	40.0%	0.0%	0.0%	60.0%	100.0%
90%	TO	100%	75.0%	25.0%	0.0%	0.0%	100.0%
100%	TO	110%	0.0%	0.0%	33.3%	66.7%	100.0%
110%	TO	120%	0.0%	0.0%	0.0%	100.0%	100.0%
120%	TO	130%	100.0%	0.0%	0.0%	0.0%	100.0%
130%	TO	140%	0.0%	100.0%	0.0%	0.0%	100.0%
140%	TO	150%	0.0%	0.0%	0.0%	100.0%	100.0%
TOTAL			18.2%	17.5%	15.9%	48.5%	100.0%

In the House, there seems to be a loose association between support for the Kennedy tax cut and the median income of the residents back in the district. 75% of the votes cast by members representing districts where the median income was between \$2500 and \$3000 were cast in favor of the Kennedy tax cut three times out of three. That consistent level of support was not matched in any other income class and in those districts with the highest median incomes in the nation, those equal to or greater than \$6500 a year, less than 30% of representatives voted for the tax cut three times out of three. By the same token, however, the decline in consistent support is not steady at all between these two points and, looking at the other side of the coin, there seems to be no association between uniform opposition to the tax cut and median income of constituents.

Those looking to median age as an explanation for House voting patterns on the tax cut may find the numbers a bit stronger. Here there seems to be something of a U-shaped pattern in the association between median age of district constituents and uniform support for the Kennedy bill. Districts with populations of median age 20 to 22 - the very youngest voters - were represented by very pro-tax cut Members (though there are only 3 Members representing such Districts, so this result could be an anomaly). Then, as median age in the district climbs, consistent support for the measure generally falls, and opposition to the measure generally

risers, until the median age class of 32 years to 34 years. At this point, the patterns reverse themselves, and the older the district population on average, the more likely their Congressmen would vote for a tax cut.

The U-shaped pattern of support seems to be a predominant one for the degree to which a district is rural, and the degree to which it's population growth in the pervious decade was slow. Support for the Administration's bill is strong in both rural districts and those suffering population declines since the last census. Then that support declines, and opposition rises, as the constituents back home lived in more urban and faster-growing settings. However, past a certain point, very urban districts, and those districts experiencing very fast growth, became more supportive of the bill once again. One must be very cautious in making these statements since the number of votes in the extreme urban and population growth classes are very small, but the patterns appear to be there.

At the same time, there seems to be a loose negative relationship between support for the Kennedy tax cut and the percentage of the district population which is engaged in white collar professions and a loosely positive relationship between support for Kennedy's measure and the percentage of the district which is black.

These patterns do not jump out very strongly from this cursory look at the data and a correlation analysis of the

linear association between the votes and these demographic and economic variables, shown below in Table 6-13, indicate that the associations are indeed generally not very strong or statistically significant. The urban share and black percentage coefficients are significant at the 99% level, but are relatively low at around 0.18 each. Thus the more black and urban the district, the more likely the vote for the Kennedy tax cut would be positive. The other coefficients are not significant at the 95% level and even where they are close (as in the population change and median age coefficients) the number is not large in any case.

TABLE 6-13

Sample Correlations between yes votes on the Kennedy Tax Cut and Economic and Demographic factors. Coefficient (sample size) significance level

	YES VOTES	POP CHANGE	URBAN SHAR	BLACK PERC
YES VOTES	1.0000 (428) .0000	-.0940 (428) .0519	.1862 (428) .0001	.1856 (428) .0001
POP_CHANGE	-.0940 (428) .0519	1.0000 (428) .0000	.2810 (428) .0000	-.2193 (428) .0000
URBAN_SHAR	.1862 (428) .0001	.2810 (428) .0000	1.0000 (428) .0000	.0366 (428) .4500
BLACK_PERC	.1856 (428) .0001	-.2193 (428) .0000	.0366 (428) .4500	1.0000 (428) .0000
MEDIAN_AGE	.0934 (428) .0535	-.1905 (428) .0001	.4248 (428) .0000	-.2116 (428) .0000
MEDIAN_FAM	-.0614 (428) .2052	.4699 (428) .0000	.7117 (428) .0000	-.4013 (428) .0000
WHITE_COLL	-.0334 (428) .4911	.4301 (428) .0000	.6820 (428) .0000	-.3358 (428) .0000

TABLE 6-13 (Continued)

Sample Correlations between yes votes on the Kennedy Tax Cut and Economic and Demographic factors. Coefficient (sample size) significance level

	MEDIAN AGE	MEDIAN FAM INC	WHITE COLL
YES VOTES	.0934 (428) .0535	-.0614 (428) .2052	-.0334 (428) .4911
POP_CHANGE	-.1905 (428) .0001	.4699 (428) .0000	.4301 (428) .0000
URBAN_SHAR	.4248 (428) .0000	.7117 (428) .0000	.6820 (428) .0000
BLACK_PERC	-.2116 (428) .0000	-.4013 (428) .0000	-.3358 (428) .0000
MEDIAN_AGE	1.0000 (428) .0000	.3573 (428) .0000	.4003 (428) .0000
MEDIAN_FAM	.3573 (428) .0000	1.0000 (428) .0000	.8173 (428) .0000
WHITE_COLL	.4003 (428) .0000	.8173 (428) .0000	1.000 (428) .0000

This impression is confirmed by the linear regression reported in Table 6-14. In this regression, the sum of yes votes on the Kennedy tax cut (with a minimum value of 0 and a maximum value of 3, since there are 3 votes considered here and "no" votes count as "0" and "yes" votes count as "1") is the dependent variable and is regressed on the economic and demographic variables above as well as one additional one, the percentage of the population over 65.

This regression should be interpreted with caution and is not meant to represent a true model or a strong test of causal relationship. The R-squared is little more than .1 and the Durbin-Watson statistic is below 2 suggesting serial correlation.

Rather, the regression is offered as a check on the descriptive measures shown above. In this sense, it largely confirms those measures. The percent of the district which is urban is statistically significant and has a fairly large and positive value above 2. The only other statistically significant variable is the median family income variable, but it is only negligibly positive. Contrary to the correlation and cross-tabulation analysis above, the black percentage coefficient is not statistically significant. Other regressions in which various variables were dropped did not materially change the results presented below.

TABLE 6-14

Regression of the sum of yes votes on the Kennedy Tax Cut on various economic and demographic variables.

Independent variable	coefficient	std. error	t-value	sig.level
CONSTANT	2.045007	0.570783	3.5828	0.0004
CONG. POP _CHANGE	-0.082156	0.19167	-0.4286	0.6684
CONG. URBAN_SHAR	2.171068	0.396158	5.4803	0.0000
CONG. BLACK_PERC	0.186832	0.527205	0.3544	0.7232
CONG. POP_65_OVER	-1.120802E-6	1.720031E-6	-0.6516	0.5150
CONG. MEDIAN_AGE	0.016106	0.019345	0.8326	0.4055
CONG. MEDIAN_FAM	-0.000271	0.000086	-3.1429	0.0018
CONG. WHITE_COLL	-1.295466	1.203213	-1.0767	0.2822

R-SQ. (ADJ.) = 0.1028 SE= 1.115687 MAE= 0.949481 DurbWat= 1.597				
428 observations fitted, forecast(s) computed for 0 missing val. of dep. var.				

How did these patterns in the House compare to those in the Senate? Tables 6-15 through 6-26 present the identical cross-tabulations that were done for the House votes as applied to the Senate votes.

TABLE 6-15

**SENATE VOTES ON KENNEDY TAX CUT DISTRIBUTED ACCORDING TO
MEDIAN INCOME
IN EACH STATE**

(Number of votes distributed by median income in each State)

MEDIAN INCOME CLASS			Never	Once	Twice	Always	TOTAL
-----			-----				
\$1,900	TO	\$2,900	1	0	1	0	2
\$2,900	TO	\$3,900	2	0	0	2	4
\$3,900	TO	\$4,900	6	2	5	17	30
\$4,900	TO	\$5,900	7	1	8	18	34
\$5,900	TO	\$6,900	3	0	5	20	28
\$6,900	TO	\$7,900	0	0	0	2	2
TOTAL			19	3	19	59	100

TABLE 6-16

(Percent of votes distributed by median income class in each State)

MEDIAN INCOME CLASS			Never	Once	Twice	Always	TOTAL
-----			-----				
\$1,900	TO	\$2,900	50.0%	0.0%	50.0%	0.0%	100.0%
\$2,900	TO	\$3,900	50.0%	0.0%	0.0%	50.0%	100.0%
\$3,900	TO	\$4,900	20.0%	6.7%	16.7%	56.7%	100.0%
\$4,900	TO	\$5,900	20.6%	2.9%	23.5%	52.9%	100.0%
\$5,900	TO	\$6,900	10.7%	0.0%	17.9%	71.4%	100.0%
\$6,900	TO	\$7,900	0.0%	0.0%	0.0%	100.0%	100.0%
TOTAL			19.0%	3.0%	19.0%	59.0%	100.0%

TABLE 6-17

SENATE VOTES ON KENNEDY TAX CUT DISTRIBUTED ACCORDING
MEDIAN AGE IN EACH STATE

(Number of votes distributed by median age class in each State)

MEDIAN AGE CLASS			Never	Once	Twice	Always	TOTAL
-----			-----				
22	TO	24	3	0	1	4	8
24	TO	26	1	1	1	3	6
26	TO	28	6	0	4	8	18
28	TO	30	5	0	6	17	28
30	TO	32	4	2	7	13	26
32	TO	34	0	0	0	14	14
TOTAL			19	3	19	59	100

TABLE 6-18

(Percentage of votes distributed by median age class in each State)

MEDIAN AGE CLASS			Never	Once	Twice	Always	TOTAL
-----			-----				
22	TO	24	37.5%	0.0%	12.5%	50.0%	100.0%
24	TO	26	16.7%	16.7%	16.7%	50.0%	100.0%
26	TO	28	33.3%	0.0%	22.2%	44.4%	100.0%
28	TO	30	17.9%	0.0%	21.4%	60.7%	100.0%
30	TO	32	15.4%	7.7%	26.9%	50.0%	100.0%
32	TO	34	0.0%	0.0%	0.0%	100.0%	100.0%
TOTAL			19.0%	3.0%	19.0%	59.0%	100.0%

TABLE 6-19

**SENATE VOTES ON KENNEDY TAX CUT DISTRIBUTED BY PERCENT OF
STATE CONSTITUENTS WHO ARE IN WHITE COLLAR PROFESSIONS**

(Number of votes distributed according to percentage in each
State of constituents in white collar professions)

% WHITE COLLAR		Never	Once	Twice	Always	TOTAL

25% TO	30%	2	0	1	1	4
30% TO	35%	3	0	3	8	14
35% TO	40%	6	2	4	16	28
40% TO	45%	7	1	7	27	42
45% TO	50%	1	0	4	7	12
TOTAL		19	3	19	59	100

TABLE 6-20

(Percentage of votes distributed according to percentage in
each State of constituents in white collar professions)

% WHITE COLLAR		Never	Once	Twice	Always	TOTAL

25% TO	30%	50.0%	0.0%	25.0%	25.0%	100.0%
30% TO	35%	21.4%	0.0%	21.4%	57.1%	100.0%
35% TO	40%	21.4%	7.1%	14.3%	57.1%	100.0%
40% TO	45%	16.7%	2.4%	16.7%	64.3%	100.0%
45% TO	50%	8.3%	0.0%	33.3%	58.3%	100.0%
TOTAL		19.0%	3.0%	19.0%	59.0%	100.0%

TABLE 6-21

**SENATE VOTES ON KENNEDY TAX CUT DISTRIBUTED ACCORDING TO
PERCENTAGE OF STATE WHICH IS URBAN**

(Number of votes by percentage of State in urban areas)

% URBAN	Never	Once	Twice	Always	TOTAL
30% TO 40%	3	0	7	6	16
40% TO 50%	2	0	1	5	8
50% TO 60%	7	1	3	9	20
60% TO 70%	3	2	5	12	22
70% TO 80%	4	0	1	17	22
80% TO 90%	0	0	2	10	12
TOTAL	19	3	19	59	100

TABLE 6-22

(Percentage of votes by percentage of State in urban areas)

% URBAN	Never	Once	Twice	Always	TOTAL
30% TO 40%	18.8%	0.0%	43.8%	37.5%	100.0%
40% TO 50%	25.0%	0.0%	12.5%	62.5%	100.0%
50% TO 60%	35.0%	5.0%	15.0%	45.0%	100.0%
60% TO 70%	13.6%	9.1%	22.7%	54.5%	100.0%
70% TO 80%	18.2%	0.0%	4.5%	77.3%	100.0%
80% TO 90%	0.0%	0.0%	16.7%	83.3%	100.0%
TOTAL	19.0%	3.0%	19.0%	59.0%	100.0%

TABLE 6-23**SENATE VOTES ON KENNEDY TAX CUT DISTRIBUTED BY PERCENTAGE OF STATE WHICH IS OF BLACK RACE**

(Number of votes distributed by percentage of State which is black)

% BLACK	Never	Once	Twice	Always	TOTAL
0% TO 10%	10	2	13	47	72
10% TO 20%	3	0	3	6	12
20% TO 30%	4	0	2	4	10
30% TO 40%	1	1	0	2	4
40% TO 50%	1	0	1	0	2
50% TO 60%	0	0	0	0	0
60% TO 70%	0	0	0	0	0
70% TO 80%	0	0	0	0	0
80% TO 90%	0	0	0	0	0
90% TO 100%	0	0	0	0	0
TOTAL	19	3	19	59	100

TABLE 6-24

(Percentage of votes distributed by percentage of district which

% BLACK	Never	Once	Twice	Always	TOTAL
0% TO 10%	13.9%	2.8%	18.1%	65.3%	100.0%
10% TO 20%	25.0%	0.0%	25.0%	50.0%	100.0%
20% TO 30%	40.0%	0.0%	20.0%	40.0%	100.0%
30% TO 40%	25.0%	25.0%	0.0%	50.0%	100.0%
40% TO 50%	50.0%	0.0%	50.0%	0.0%	100.0%
TOTAL	19.0%	3.0%	19.0%	59.0%	100.0%

TABLE 6-25

SENATE VOTES ON KENNEDY TAX CUT DISTRIBUTED ACCORDING TO POPULATION CHANGE IN EACH STATE BETWEEN 1950 AND 1960

(Number of votes distributed according to percentage population change in State between 1950 and 1960)

% POP CHANGE 1950-60	Never	Once	Twice	Always	TOTAL
-10% TO 0%	2	0	1	3	6
0% TO 10%	5	1	3	17	26
10% TO 20%	6	1	9	18	34
20% TO 30%	3	1	0	12	16
30% TO 40%	1	0	4	1	6
40% TO 50%	1	0	2	1	4
50% TO 60%	0	0	0	0	0
60% TO 70%	0	0	0	0	0
70% TO 80%	1	0	0	7	8
TOTAL	19	3	19	59	100

TABLE 6-26

(Number of votes distributed according to percentage population change in State between 1950 and 1960)

% POP CHANGE 1950-60	Never	Once	Twice	Always	TOTAL
-10% TO 0%	33.3%	0.0%	16.7%	50.0%	100.0%
0% TO 10%	19.2%	3.8%	11.5%	65.4%	100.0%
10% TO 20%	17.6%	2.9%	26.5%	52.9%	100.0%
20% TO 30%	18.8%	6.3%	0.0%	75.0%	100.0%
30% TO 40%	16.7%	0.0%	66.7%	16.7%	100.0%
40% TO 50%	25.0%	0.0%	50.0%	25.0%	100.0%
50% TO 60%	0.0%	0.0%	0.0%	0.0%	0.0%
60% TO 70%	0.0%	0.0%	0.0%	0.0%	0.0%
70% TO 80%	12.5%	0.0%	0.0%	87.5%	100.0%
TOTAL	19.0%	3.0%	19.0%	59.0%	100.0%

These tables reveal a much more consistent positive relationship between support for the Kennedy tax cut in the Senate and the median income in the State. The richer the State, the more likely that that State's Senators would have voted for the Administration position 3 times out of three. Not only is this association more steady in the Senate than in the House, the House votes reveal the opposite association: the richer the district, the more likely that the Congressmen representing the district would have voted against the Administration.

There appears to be no clear relationship between the median age of the State population and the vote on the Kennedy tax cut, and only a weak positive relationship between the percentage of the State which is white collar and a yes vote for the tax cut. This relationship is clearest between the least-white collar class of States (those with populations between 25% and 30% white collar) and the next-least white-collar class of States (those with populations between 30% and 35%). These classes also have the disadvantage of having among the fewest observations in them and so inferences based on these figures may be misleading.

As in the House, there is a generally positive relationship between the urban nature of a State and a consistent position of support for the Kennedy tax cut, though there is not the weak "u-shape" as seen in the House cross-tabulations. The proportion of the population which is black seems to be negatively associated with consistent "yes" votes from Senators, and, like the House, there seems to be a fall then a rise in support for the Kennedy

tax cut as population growth since the prior census increases, though, also as in the House, low-growth areas appear to be stronger in their support for the bill than high-growth areas.

As with the House votes, a correlation analysis of the Senate votes was done and is reported below in Table 6-27.

TABLE 6-27

Sample Correlations between Senate votes on Kennedy tax cut and various economic and demographic variables

	YES_INDEX_	WHITE_COLL	MEDIAN_FAM
YES_INDEX_	1.0000 (100) .0000	-.1036 (100) .3051	-.0924 (100) .3604
WHITE_COLL	-.1036 (100) .3051	1.0000 (100) .0000	.8225 (100) .0000
MEDIAN_FAM	-.0924 (100) .3604	.8225 (100) .0000	1.0000 (100) .0000
MEDIAN_SCH	-.0136 (100) .8930	.7112 (100) .0000	.7337 (100) .0000
MEDIAN_AGE	-.1049 (100) .2990	.2555 (100) .0103	.3379 (100) .0006
BLACK_PER_	.0309 (100) .7603	-.4722 (100) .0000	-.5807 (100) .0000
URB_1960	-.1360 (100) .1772	.6027 (100) .0000	.6247 (100) .0000
POP_1950_T	-.0016 (100) .9874	.5751 (100) .0000	.5062 (100) .0000

Coefficient (sample size) significance level

TABLE 6-27 (Continued)

Sample Correlations between Senate votes on Kennedy tax cut and various economic and demographic variables

	MEDIAN_SCH	MEDIAN_AGE	BLACK_PER_
YES_INDEX_	-.0136 (100) .8930	-.1049 (100) .2990	.0309 (100) .7603
WHITE_COLL	.7112 (100) .0000	.2555 (100) .0103	-.4722 (100) .0000
MEDIAN_FAM	.7337 (100) .0000	.3379 (100) .0006	-.5807 (100) .0000
MEDIAN_SCH	1.0000 (100) .0000	.1629 (100) .1053	-.6910 (100) .0000
MEDIAN_AGE	.1629 (100) .1053	1.0000 (100) .0000	-.3227 (100) .0011
BLACK_PER_	-.6910 (100) .0000	-.3227 (100) .0011	1.0000 (100) .0000
URB_1960	.3308 (100) .0008	.4642 (100) .0000	-.1748 (100) .0819
POP_1950_T	.4867 (100) .0000	-.1477 (100) .1426	-.0976 (100) .3343

Coefficient (sample size) significance level

TABLE 6-27 (CONTINUED)

	URB_1960	POP_1950_T
YES_INDEX_	-.1360 (100) .1772	-.0016 (100) .9874
WHITE_COLL	.6027 (100) .0000	.5751 (100) .0000
MEDIAN_FAM	.6247 (100) .0000	.5062 (100) .0000
MEDIAN_SCH	.3308 (100) .0008	.4867 (100) .0000
MEDIAN_AGE	.4642 (100) .0000	-.1477 (100) .1426
BLACK_PER_	-.1748 (100) .0819	-.0976 (100) .3343
URB_1960	1.0000 (100) .0000	.3293 (100) .0008
POP_1950_T	.3293 (100) .0008	1.0000 (100) .0000

	Coefficient	(sample size) significance level

Those looking for strong linear associations between the Senate votes on the Kennedy tax cut and the economic and demographic variables analyzed above will be disappointed. None of the coefficients above is even close to being statistically significant.

A regression similar to that done for the House votes is reported in Table 6-28, and the results are similarly discouraging. Almost no variable except for an added variable on median schooling in the State is significant and even the education coefficient is not large.

TABLE 6-28

Regression of sum of Senate "yes" votes on Kennedy Tax Cut on various economic and demographic variables

Independent variable	coefficient	std. error	t-value	sig.level
CONSTANT	3.297239	2.43248	1.3555	0.1786
SENATE. WHITE_COLL	1.525439	4.796091	0.3181	0.7512
SENATE. MEDIAN_FAM	0.000354	0.000241	1.4689	0.1453
SENATE. MEDIAN_SCH	-0.48704	0.193207	-2.5208	0.0134
SENATE. MEDIAN_AGE	0.05713	0.054014	1.0577	0.2930
SENATE. BLACK_PER_	-2.547927	1.759323	-1.4482	0.1509
SENATE. URB_1960	0.03625	1.120524	0.0324	0.9743
SENATE. POP_1950/60	0.662771	0.799825	0.8286	0.4094

R-SQ. (ADJ.) = 0.0842 SE= 1.116486 MAE= 0.844710

DurbWat= 2.169

100 observations fitted, forecast(s) computed for 0 missing val. of dep. var.

Two observations seem appropriate in summing up this analysis of the House and Senate coalitions underlying the Kennedy tax cut. First, the House appears to be more sensitive to economic and demographic characteristics of their constituencies back home, at least as far as the Kennedy vote is concerned. In particular, the percentage of the House district which was urban had some positive influence on whether a House member would support the tax cut, as did the percentage of the district was black. Median income also seemed to have had some influence. By contrast, Senators generally appeared to be less influenced by any of these factors.

This tentative finding accords with one view of Congress which holds that Senators, being elected less often than Representatives, and representing broader constituencies, are less attuned to the ideologies of their constituencies and more able to represent their own personal views. Alternatively, it may also be the case that Senators, in playing to the median voter in the State, rather than the more narrow confines of the House District, take more centrist positions which are less associated with particular income, racial or age groups.

The other main observation is that neither Representatives nor Senators were particularly affected by demographic or economic characteristics in general in their vote on the tax cut. Putting this another way, the constituency behind the Kennedy tax cut was fairly broad as far as income classes, age and race were concerned. This fact is indicative of the wide support which

the bill ended up receiving generally, with a large majority of the majority party supporting it and a sizeable minority of the minority party voting the same way.

Gramm-Rudman and the Politics of the Economy

A similar analysis to that of the Kennedy Tax Cut coalitions in the House and Senate is done for the votes Gramm-Rudman. The House cross-tabulations are presented in tables 6-29 through 6-38.

TABLE 6-29

HOUSE VOTES ON GRAMM-RUDMAN DISTRIBUTED ACCORDING TO MEDIAN INCOME
OF DISTRICT CONSTITUENTS

(NUMBER OF VOTES)

MEDIAN INCOME CLASS			No	Yes	No Vote	TOTAL
-----			-----			
\$7,500	TO	\$10,000	2	0	0	2
\$10,000	TO	\$12,500	1	2	0	3
\$12,500	TO	\$15,000	17	12	0	29
\$15,000	TO	\$17,500	28	54	1	83
\$17,500	TO	\$20,000	31	83	2	116
\$20,000	TO	\$22,500	38	63	1	102
\$22,500	TO	\$25,000	25	22	0	47
\$25,000	TO	\$27,500	10	23	1	34
\$27,500	TO	\$30,000	2	9	0	11
\$30,000	TO	\$32,500	1	5	0	6
\$32,500	TO	\$35,000	1	1	0	2
TOTAL			156	274	5	435

TABLE 6-30

(Percent of votes)

MEDIAN INCOME CLASS			No	Yes	No Vote	TOTAL
-----			-----			
\$7,500	TO	\$10,000	100.0%	0.0%	0.0%	100.0%
\$10,000	TO	\$12,500	33.3%	66.7%	0.0%	100.0%
\$12,500	TO	\$15,000	58.6%	41.4%	0.0%	100.0%
\$15,000	TO	\$17,500	33.7%	65.1%	1.2%	100.0%
\$17,500	TO	\$20,000	26.7%	71.6%	1.7%	100.0%
\$20,000	TO	\$22,500	37.3%	61.8%	1.0%	100.0%
\$22,500	TO	\$25,000	53.2%	46.8%	0.0%	100.0%
\$25,000	TO	\$27,500	29.4%	67.6%	2.9%	100.0%
\$27,500	TO	\$30,000	18.2%	81.8%	0.0%	100.0%
\$30,000	TO	\$32,500	16.7%	83.3%	0.0%	100.0%
\$32,500	TO	\$35,000	50.0%	50.0%	0.0%	100.0%
TOTAL			35.9%	63.0%	1.1%	100.0%

TABLE 6-31

HOUSE VOTES ON GRAMM-RUDMAN DISTRIBUTED ACCORDING TO MEDIAN AGE OF DISTRICT CONSTITUENTS

(NUMBER OF VOTES IN EACH MEDIAN AGE CLASS)

MEDIAN AGE CLASS			No	Yes	No Vote	TOTAL
20	TO	22	0	0	1	1
22	TO	24	0	1	0	1
24	TO	26	4	3	0	7
26	TO	28	25	35	0	60
28	TO	30	48	96	2	146
30	TO	32	41	94	1	136
32	TO	34	22	28	1	51
34	TO	36	11	11	0	22
36	TO	38	2	3	0	5
38	TO	40	0	1	0	1
40	TO	42	0	1	0	1
42	TO	44	1	0	0	1
44	TO	46	2	0	0	2
46	TO	48	0	1	0	1
TOTAL			156	274	5	435

TABLE 6-32

(PERCENTAGE OF VOTES IN EACH MEDIAN AGE CLASS)

MEDIAN AGE CLASS			No	Yes	No Vote	TOTAL
20	TO	22	0.0%	0.0%	100.0%	100.0%
22	TO	24	0.0%	100.0%	0.0%	100.0%
24	TO	26	57.1%	42.9%	0.0%	100.0%
26	TO	28	41.7%	58.3%	0.0%	100.0%
28	TO	30	32.9%	65.8%	1.4%	100.0%
30	TO	32	30.1%	69.1%	0.7%	100.0%
32	TO	34	43.1%	54.9%	2.0%	100.0%
34	TO	36	50.0%	50.0%	0.0%	100.0%
36	TO	38	40.0%	60.0%	0.0%	100.0%
38	TO	40	0.0%	100.0%	0.0%	100.0%
40	TO	42	0.0%	100.0%	0.0%	100.0%
42	TO	44	100.0%	0.0%	0.0%	100.0%
44	TO	46	100.0%	0.0%	0.0%	100.0%
46	TO	48	0.0%	100.0%	0.0%	100.0%
TOTAL			35.9%	63.0%	1.1%	100.0%

TABLE 6-33

HOUSE VOTES ON GRAMM-RUDMAN DISTRIBUTED ACCORDING TO PERCENT
OF DISTRICT CONSTITUENTS WHO ARE WHITE COLLAR

(NUMBER OF VOTES IN EACH WHITE COLLAR PERCENTAGE CLASS)

% WHITE COLLAR		No	Yes	No Vote	TOTAL

7.5% TO	12.5%	2	1	0	3
12.5% TO	17.5%	6	1	0	7
17.5% TO	22.5%	10	22	1	33
22.5% TO	27.5%	35	53	2	90
27.5% TO	32.5%	38	64	0	102
32.5% TO	37.5%	39	68	1	108
37.5% TO	42.5%	16	45	1	62
42.5% TO	47.5%	9	13	0	22
47.5% TO	52.5%	1	6	0	7
TOTAL		156	274	5	435

TABLE 6-34

(PERCENTAGE OF EACH VOTES IN EACH WHITE COLLAR PERCENTAGE CLASS)

% WHITE COLLAR		No	Yes	No Vote	TOTAL

7.5% TO	12.5%	66.7%	33.3%	0.0%	100.0%
12.5% TO	17.5%	85.7%	14.3%	0.0%	100.0%
17.5% TO	22.5%	30.3%	66.7%	3.0%	100.0%
22.5% TO	27.5%	38.9%	58.9%	2.2%	100.0%
27.5% TO	32.5%	37.3%	62.7%	0.0%	100.0%
32.5% TO	37.5%	36.1%	63.0%	0.9%	100.0%
37.5% TO	42.5%	25.8%	72.6%	1.6%	100.0%
42.5% TO	47.5%	40.9%	59.1%	0.0%	100.0%
47.5% TO	52.5%	14.3%	85.7%	0.0%	100.0%
TOTAL		35.9%	63.0%	1.1%	100.0%

TABLE 6-35

HOUSE VOTES ON KENNEDY TAX CUT DISTRIBUTED ACCORDING TO
PERCENT OF DISTRICT IN URBAN AREAS

(Number of votes by percentage of district in urban areas)

% URBAN			No	Yes	No Vote	TOTAL

15.0%	TO	22.5%	1	3	0	4
22.5%	TO	30.0%	0	6	0	6
30.0%	TO	37.5%	4	11	0	15
37.5%	TO	45.0%	9	20	1	30
45.0%	TO	52.5%	8	38	0	46
52.5%	TO	60.0%	9	28	0	37
60.0%	TO	67.5%	7	32	1	40
67.5%	TO	75.0%	8	28	0	36
75.0%	TO	82.5%	12	23	1	36
82.5%	TO	90.0%	13	19	0	32
90.0%	TO	97.5%	14	31	1	46
97.5%	TO	100.0%	71	35	1	107
TOTAL			156	274	5	435

TABLE 6-36

(Percentage of votes by percentage of district in urban areas)

% URBAN			No	Yes	No Vote	TOTAL

15.0%	TO	22.5%	25.0%	75.0%	0.0%	100.0%
22.5%	TO	30.0%	0.0%	100.0%	0.0%	100.0%
30.0%	TO	37.5%	26.7%	73.3%	0.0%	100.0%
37.5%	TO	45.0%	30.0%	66.7%	3.3%	100.0%
45.0%	TO	52.5%	17.4%	82.6%	0.0%	100.0%
52.5%	TO	60.0%	24.3%	75.7%	0.0%	100.0%
60.0%	TO	67.5%	17.5%	80.0%	2.5%	100.0%
67.5%	TO	75.0%	22.2%	77.8%	0.0%	100.0%
75.0%	TO	82.5%	33.3%	63.9%	2.8%	100.0%
82.5%	TO	90.0%	40.6%	59.4%	0.0%	100.0%
90.0%	TO	97.5%	30.4%	67.4%	2.2%	100.0%
97.5%	TO	100.0%	66.4%	32.7%	0.9%	100.0%
TOTAL			35.9%	63.0%	1.1%	100.0%

TABLE 6-37

**HOUSE VOTES ON GRAMM-RUDMAN DISTRIBUTED ACCORDING TO POPULATION
CHANGE IN EACH DISTRICT BETWEEN 1970 AND 1980**

(Number of votes distributed according to percentage population
change in district between 1970 and 1980)

% POP CHANGE 1970-80		No	Yes	No Vote	TOTAL

-40.0%	TO -30.0%	2	0	0	2
-30.0%	TO -20.0%	2	0	0	2
-20.0%	TO -10.0%	13	2	0	15
-10.0%	TO 0.0%	39	25	3	67
0.0%	TO 10.0%	46	72	0	118
10.0%	TO 20.0%	27	77	1	105
20.0%	TO 30.0%	14	37	0	51
30.0%	TO 40.0%	8	27	1	36
40.0%	TO 50.0%	1	14	0	15
50.0%	TO 60.0%	3	6	0	9
60.0%	TO 70.0%	0	5	0	5
70.0%	TO 80.0%	0	4	0	4
80.0%	TO 90.0%	0	2	0	2
90.0%	TO 100.0%	1	1	0	2
100.0%	TO 110.0%	0	1	0	1
110.0%	TO 120.0%	0	0	0	0
120.0%	TO 130.0%	0	1	0	1
TOTAL		156	274	5	435

TABLE 6-38

(Percent of votes distributed according to percentage population change in each district between 1970 and 1980)

% POP CHANGE 1970-80			No	Yes	No Vote	TOTAL
-40.0%	TO	-30.0%	100.0%	0.0%	0.0%	100.0%
-30.0%	TO	-20.0%	100.0%	0.0%	0.0%	100.0%
-20.0%	TO	-10.0%	86.7%	13.3%	0.0%	100.0%
-10.0%	TO	0.0%	58.2%	37.3%	4.5%	100.0%
0.0%	TO	10.0%	39.0%	61.0%	0.0%	100.0%
10.0%	TO	20.0%	25.7%	73.3%	1.0%	100.0%
20.0%	TO	30.0%	27.5%	72.5%	0.0%	100.0%
30.0%	TO	40.0%	22.2%	75.0%	2.8%	100.0%
40.0%	TO	50.0%	6.7%	93.3%	0.0%	100.0%
50.0%	TO	60.0%	33.3%	66.7%	0.0%	100.0%
60.0%	TO	70.0%	0.0%	100.0%	0.0%	100.0%
70.0%	TO	80.0%	0.0%	100.0%	0.0%	100.0%
80.0%	TO	90.0%	0.0%	100.0%	0.0%	100.0%
90.0%	TO	100.0%	50.0%	50.0%	0.0%	100.0%
100.0%	TO	110.0%	0.0%	100.0%	0.0%	100.0%
110.0%	TO	120.0%	0.0%	0.0%	0.0%	0.0%
120.0%	TO	130.0%	0.0%	100.0%	0.0%	100.0%
TOTAL			35.9%	63.0%	1.1%	100.0%

The trends in House voting on Gramm-Rudman seem a bit stronger than those evidenced in the Kennedy tax cut. The tables indicate that the higher the median income in the District, the less likely a House member would have voted for the Gramm-Rudman conference report, and the more likely he or she would have voted against it (remember that, unlike the Kennedy House votes, this cross-tabulation is for the vote on the Gramm-Rudman conference report alone).

The patterns on age are less clear, but seem to show that as median age rises, opposition to Gramm-Rudman declines. The few exceptions to this trend come in those very few districts where the median age is over 40. This relationship, weak though it is, may indicate the effect of exempting Social Security for Gramm-Rudman: the older constituents back home were, the less they had to lose from a budget limitation.

Opposition to Gramm-Rudman does appear to fall in general as the percent of the constituency working in blue-collar professions rises. Perhaps this is indicative of the anti-government mood of the so-called Reagan Democrats, many of whom were union members.

Gramm-Rudman was generally opposed by Congressmen representing urban areas, and Representatives of constituencies with significant numbers of blacks, and declining or slow-growth areas were also less in favor of Gramm-Rudman than those representing more white, rural/suburban or faster-growing areas.

These trends are supported by a correlation analysis, similar to those above, which is presented below in table 6-41.

TABLE 6-39

Sample Correlations of House vote on conference report on Gramm-Rudman
and various economic and demographic variables

	VOTE	POP_1970_T	POP_1980_T
VOTE	1.0000 (435) .0000	.2802 (435) .0000	.1646 (435) .0006
POP_1970_T	.2802 (435) .0000	1.0000 (435) .0000	.7710 (435) .0000
POP_1980_T	.1646 (435) .0006	.7710 (435) .0000	1.0000 (435) .0000
MED_AGE	-.0709 (435) .1400	.0263 (435) .5846	.0317 (435) .5096
MED_FAM_IN	.0614 (435) .2011	.0444 (435) .3552	.1605 (435) .0008
BLUE_COLLAR	.0637 (435) .1851	-.0880 (435) .0667	-.2781 (435) .0000
MED_SCHOOL	.0746 (435) .1205	.2181 (435) .0000	.3429 (435) .0000
URBAN_SHAR	-.2860 (435) .0000	-.1837 (435) .0001	.0961 (435) .0452
POP_SQUARE MILE	-.2561 (435) .0000	-.3341 (435) .0000	-.1445 (435) .0025
BLACK_PERC	-.2343 (435) .0000	-.3027 (435) .0000	-.2244 (435) .0000

Coefficient (sample size) significance level

TABLE 6-39 (Continued)

Sample Correlations of House vote on conference report on Gramm-Rudman
and various economic and demographic variables

	MED_AGE	MED_FAM_IN	BLUE_COLL
VOTE	-.0709 (435) .1400	.0614 (435) .2011	.0637 (435) .1851
POP_1970_T	.0263 (435) .5846	.0444 (435) .3552	-.0880 (435) .0667
POP_1980_T	.0317 (435) .5096	.1605 (435) .0008	-.2781 (435) .0000
MED_AGE	1.0000 (435) .0000	.1498 (435) .0017	-.2477 (435) .0000
MED_FAM_IN	.1498 (435) .0017	1.0000 (435) .0000	-.5191 (435) .0000
BLUE_COLL	-.2477 (435) .0000	-.5191 (435) .0000	1.0000 (435) .0000
MED_SCHOOL	.1433 (435) .0027	.7666 (435) .0000	-.7810 (435) .0000
URBAN_SHAR	.1351 (435) .0048	.4190 (435) .0000	-.5573 (435) .0000
POP_SQUARE MILE	.1563 (435) .0011	-.1245 (435) .0093	-.2262 (435) .0000
BLACK_PERC	-.2038 (435) .0000	-.3871 (435) .0000	.0920 (435) .0551

Coefficient (sample size) significance level

TABLE 6-39 (CONTINUED)

	MED_SCHOOL	URBAN_SHAR	POP_SQUARE	BLACK_PERC
VOTE	.0746 (435) .1205	-.2860 (435) .0000	-.2561 (435) .0000	-.2343 (435) .0000
POP_1970_T	.2181 (435) .0000	-.1837 (435) .0001	-.3341 (435) .0000	-.3027 (435) .0000
POP_1980_T	.3429 (435) .0000	.0961 (435) .0452	-.1445 (435) .0025	-.2244 (435) .0000
MED_AGE	.1433 (435) .0027	.1351 (435) .0048	.1563 (435) .0011	-.2038 (435) .0000
MED_FAM_IN	.7666 (435) .0000	.4190 (435) .0000	-.1245 (435) .0093	-.3871 (435) .0000
BLUE_COLLAR	-.7810 (435) .0000	-.5573 (435) .0000	-.2262 (435) .0000	.0920 (435) .0551
MED_SCHOOL	1.0000 (435) .0000	.4209 (435) .0000	-.0391 (435) .4155	-.3507 (435) .0000
URBAN_SHAR	.4209 (435) .0000	1.0000 (435) .0000	.3802 (435) .0000	.2120 (435) .0000
POP_SQUARE MILE	-.0391 (435) .4155	.3802 (435) .0000	1.0000 (435) .0000	.3286 (435) .0000
BLACK_PERC	-.3507 (435) .0000	.2120 (435) .0000	.3286 (435) .0000	1.0000 (435) .0000

The variables with significant correlation coefficients are the population change variables (both positive), and the urban share and black share variables (both negative). These coefficients are generally larger than the coefficients on the House votes - between 0.15 and 0.29 - though of the same general magnitude.

A regression of the House vote on the conference report on the demographic and economic variables above was done as it was in analyzing the Kennedy Tax Cut. This regression, must be interpreted as carefully as the regression above on the House vote on the Kennedy tax cut. In general, however, the regression results reinforce the impression above that Gramm-Rudman faced its core opposition in the House from black, urban and slowly-growing or declining constituencies, and that support from other demographic and income groups was more diffuse.

TABLE 6-40

Regression of House vote on the Gramm-Rudman conference report
on various economic and demographic variables

Independent variable	coefficient	std. error	t-value	sig.level
CONSTANT	1.024641	0.367183	2.7905	0.0055
CONG1980. POP_1970_ TO_1980	0.527928	0.188596	2.7992	0.0054
CONG1980. POP_1980_ TO_1990	-0.004525	0.250827	-0.0180	0.9856
CONG1980. MED_AGE	-0.011636	0.008156	-1.4268	0.1544
CONG1980. MED_FAM_IN	0.000024	6.621155E-6	3.6105	0.0003
CONG1980. BLUE_COLL	-0.126437	0.41757	-0.3028	0.7622
CONG1980. URBAN_SHAR	-0.727536	0.128932	-5.6428	0.0000

R-SQ. (ADJ.) = 0.1565 SE= 0.459376 MAE= 0.385910

DurbWat= 1.919

435 observations fitted, forecast(s) computed for 0 missing val.
of dep. var.

Tables 6-41 through 6-52 provide the same cross-tabulations for the Senate as for the House. In the Senate, the link between median income of the State and the vote on Gramm-Rudman is less clear. In fact, the highest median income States had the highest likelihood of being represented by Senators who voted against Gramm-Rudman on all occasions. The Senate was more similar to the House in the relationship between median age and support for Gramm-Rudman: except for the relatively "oldest" States, support for Gramm-Rudman by Senators rose with median age of their constituents.

Patterns of blue-collar constituency support in the Senate were not so obvious, but, as in the House, urban opposition to Gramm-Rudman, at least as mediated through the Senator's vote on the matter, was clear. Also, the higher the percentage of blacks in a State, and the slower growing a State was, the more likely its Senator would oppose Gramm-Rudman.

TABLE 6-41

SENATE VOTES ON GRAMM-RUDMAN DISTRIBUTED ACCORDING TO MEDIAN
INCOME IN EACH STATE

(Number of votes distributed by median income in each State)

MEDIAN INCOME CLASS			Never	Once	Twice	Always	TOTAL
-----			-----				
\$14,500	TO	\$16,000	0	1	4	1	6
\$16,000	TO	\$17,500	2	3	10	9	24
\$17,500	TO	\$19,000	1	3	4	2	10
\$19,000	TO	\$20,500	6	2	5	11	24
\$20,500	TO	\$22,000	3	1	5	11	20
\$22,000	TO	\$23,500	8	0	2	4	14
TOTAL			20	10	30	40	100

TABLE 6-42

(Percentage of votes)

MEDIAN INCOME CLASS			Never	Once	Twice	Always	TOTAL
-----			-----				
\$14,500	TO	\$16,000	0.0%	16.7%	66.7%	16.7%	100.0%
\$16,000	TO	\$17,500	8.3%	12.5%	41.7%	37.5%	100.0%
\$17,500	TO	\$19,000	10.0%	30.0%	40.0%	20.0%	100.0%
\$19,000	TO	\$20,500	25.0%	8.3%	20.8%	45.8%	100.0%
\$20,500	TO	\$22,000	15.0%	5.0%	25.0%	55.0%	100.0%
\$22,000	TO	\$23,500	57.1%	0.0%	14.3%	28.6%	100.0%
TOTAL			20.0%	10.0%	30.0%	40.0%	100.0%

TABLE 6-43

SENATE VOTES ON GRAMM-RUDMAN DISTRIBUTED ACCORDING TO MEDIAN
AGE OF STATE POPULATION

(Number of votes distributed by median age class in each State)

MEDIAN AGE CLASS			Never	Once	Twice	Always	TOTAL
24	TO	26	0	0	0	2	2
26	TO	28	2	0	5	5	12
28	TO	30	7	7	16	18	48
30	TO	32	8	3	6	13	30
32	TO	34	3	0	1	2	6
34	TO	36	0	0	2	0	2
TOTAL			20	10	30	40	100

TABLE 6-44

(Percentage of votes)

MEDIAN AGE CLASS			Never	Once	Twice	Always	TOTAL
24	TO	26	0.0%	0.0%	0.0%	100.0%	100.0%
26	TO	28	16.7%	0.0%	41.7%	41.7%	100.0%
28	TO	30	14.6%	14.6%	33.3%	37.5%	100.0%
30	TO	32	26.7%	10.0%	20.0%	43.3%	100.0%
32	TO	34	50.0%	0.0%	16.7%	33.3%	100.0%
34	TO	36	0.0%	0.0%	100.0%	0.0%	100.0%
TOTAL			20.0%	10.0%	30.0%	40.0%	100.0%

TABLE 6-45

SENATE VOTES ON GRAMM-RUDMAN DISTRIBUTED ACCORDING TO PERCENTAGE
OF BLUE COLLAR WORKERS IN EACH STATE

(Number of votes distributed according to percentage in each
State which are blue collar)

% BLUE COLLAR	Never	Once	Twice	Always	TOTAL
20% TO 25%	2	1	3	4	10
25% TO 30%	11	3	9	11	34
30% TO 35%	3	2	10	11	26
35% TO 40%	2	3	7	10	22
40% TO 45%	1	1	0	4	6
45% TO 50%	0	0	0	0	0
TOTAL	20	10	30	40	100

TABLE 6-46

(Percentage of votes)

% BLUE COLLAR	Never	Once	Twice	Always	TOTAL
20% TO 25%	20.0%	10.0%	30.0%	40.0%	100.0%
25% TO 30%	32.4%	8.8%	26.5%	32.4%	100.0%
30% TO 35%	11.5%	7.7%	38.5%	42.3%	100.0%
35% TO 40%	9.1%	13.6%	31.8%	45.5%	100.0%
40% TO 45%	16.7%	16.7%	0.0%	66.7%	100.0%
45% TO 50%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL	20.0%	10.0%	30.0%	40.0%	100.0%

TABLE 6-47SENATE VOTES ON GRAMM-RUDMAN DISTRIBUTED ACCORDING TO PERCENT
URBANIZED IN STATE

(Number of votes by percentage of State in urban areas)

% URBAN	Never	Once	Twice	Always	TOTAL
30% TO 40%	1	1	1	1	4
40% TO 50%	0	3	4	3	10
50% TO 60%	1	2	7	4	14
60% TO 70%	4	2	9	17	32
70% TO 80%	4	1	4	5	14
80% TO 90%	9	1	5	9	24
90% TO 100%	1	0	0	1	2
TOTAL	20	10	30	40	100

TABLE 6-48

(Percentage of votes)

% URBAN	Never	Once	Twice	Always	TOTAL
30% TO 40%	25.0%	25.0%	25.0%	25.0%	100.0%
40% TO 50%	0.0%	30.0%	40.0%	30.0%	100.0%
50% TO 60%	7.1%	14.3%	50.0%	28.6%	100.0%
60% TO 70%	12.5%	6.3%	28.1%	53.1%	100.0%
70% TO 80%	28.6%	7.1%	28.6%	35.7%	100.0%
80% TO 90%	37.5%	4.2%	20.8%	37.5%	100.0%
90% TO 100%	50.0%	0.0%	0.0%	50.0%	100.0%
TOTAL	20.0%	10.0%	30.0%	40.0%	100.0%

TABLE 6-49

SENATE VOTES ON KENNEDY TAX CUT DISTRIBUTED BY PERCENTAGE OF DISTRICT WHICH IS BLACK

(Number of votes distributed by percentage of State which is black)

% BLACK		Never	Once	Twice	Always	TOTAL
-----		-----				
0.0% TO	5.0%	9	6	11	20	46
5.0% TO	10.0%	4	1	4	9	18
10.0% TO	15.0%	4	1	4	5	14
15.0% TO	20.0%	0	1	5	2	8
20.0% TO	25.0%	2	1	0	1	4
25.0% TO	30.0%	1	0	4	1	6
30.0% TO	35.0%	0	0	0	2	2
35.0% TO	40.0%	0	0	2	0	2
TOTAL		20	10	30	40	100

TABLE 6-50

(Percentage of votes)

% BLACK		Never	Once	Twice	Always	TOTAL
-----		-----				
0.0% TO	5.0%	19.6%	13.0%	23.9%	43.5%	100.0%
5.0% TO	10.0%	22.2%	5.6%	22.2%	50.0%	100.0%
10.0% TO	15.0%	28.6%	7.1%	28.6%	35.7%	100.0%
15.0% TO	20.0%	0.0%	12.5%	62.5%	25.0%	100.0%
20.0% TO	25.0%	50.0%	25.0%	0.0%	25.0%	100.0%
25.0% TO	30.0%	16.7%	0.0%	66.7%	16.7%	100.0%
30.0% TO	35.0%	0.0%	0.0%	0.0%	100.0%	100.0%
35.0% TO	40.0%	0.0%	0.0%	100.0%	0.0%	100.0%
TOTAL		20.0%	10.0%	30.0%	40.0%	100.0%

TABLE 6-51

SENATE VOTES ON GRAMM-RUDMAN DISTRIBUTED ACCORDING TO PERCENTAGE
CHANGE IN STATE POPULATION BETWEEN 1970 AND 1980

(Number of votes distributed according to percentage population
change between 1970 and 1980)

% POP CHANGE 1970-80	Never	Once	Twice	Always	TOTAL
-10% TO 0%	2	1	1	2	6
0% TO 10%	10	4	9	13	36
10% TO 20%	3	4	12	9	28
20% TO 30%	4	0	2	8	14
30% TO 40%	1	0	2	5	8
40% TO 50%	0	0	2	2	4
50% TO 60%	0	1	1	0	2
60% TO 70%	0	0	1	1	2
TOTAL	20	10	30	40	100

TABLE 6-52

(Percentage of votes)

% POP CHANGE 1970-80	Never	Once	Twice	Always	TOTAL
-10% TO 0%	33.3%	16.7%	16.7%	33.3%	100.0%
0% TO 10%	27.8%	11.1%	25.0%	36.1%	100.0%
10% TO 20%	10.7%	14.3%	42.9%	32.1%	100.0%
20% TO 30%	28.6%	0.0%	14.3%	57.1%	100.0%
30% TO 40%	12.5%	0.0%	25.0%	62.5%	100.0%
40% TO 50%	0.0%	0.0%	50.0%	50.0%	100.0%
50% TO 60%	0.0%	50.0%	50.0%	0.0%	100.0%
60% TO 70%	0.0%	0.0%	50.0%	50.0%	100.0%
TOTAL	20.0%	10.0%	30.0%	40.0%	100.0%

Table 6-53 shows the correlation coefficients between the Senate votes on Gramm-Rudman and the economic and demographic variables analyzed above. As in the Kennedy case, it is remarkable to note that none of the coefficients is significant. The regression results presented in Table 6-54 further reinforces this rather remarkable conclusion: the Senate is much less responsive than the House to key economic and demographic characteristics of their constituents, at least with respect to two landmark acts in fiscal policy.

TABLE 6-53

Sample Correlations of Senate Gramm-Rudman votes and various economic and demographic variables

	YES_INDEX_	BLACK_SHAR	URB_1980
YES_INDEX_	1.0000 (100) .0000	-.0161 (100) .8734	-.1249 (100) .2158
BLACK_SHAR	-.0161 (100) .8734	1.0000 (100) .0000	-.0179 (100) .8599
URB_1980	-.1249 (100) .2158	-.0179 (100) .8599	1.0000 (100) .0000
MED_SCH_19	-.0405 (100) .6891	-.6900 (100) .0000	.4099 (100) .0000
WH_COL_198	-.1457 (100) .1480	-.1138 (100) .2594	.7412 (100) .0000
MED_FAM_IN	-.0552 (100) .5851	-.2626 (100) .0083	.5787 (100) .0000
MED_AGE_19	-.1696 (100) .0915	.0331 (100) .7434	.2158 (100) .0311
POP_1970_T	.1745 (100) .0825	-.0976 (100) .3342	.2175 (100) .0297
POP_1980_T	.1042 (100) .3021	-.0691 (100) .4948	.2756 (100) .0055

Coefficient (sample size) significance level

TABLE 6-53 (Continued)

Sample Correlations of Senate Gramm-Rudman votes and various economic and demographic variables

	MED_SCH_19	WH_COL_198	MED_FAM_IN
YES_INDEX_	-.0405 (100) .6891	-.1457 (100) .1480	-.0552 (100) .5851
BLACK_SHAR	-.6900 (100) .0000	-.1138 (100) .2594	-.2626 (100) .0083
URB_1980	.4099 (100) .0000	.7412 (100) .0000	.5787 (100) .0000
MED_SCH_19	1.0000 (100) .0000	.6062 (100) .0000	.6100 (100) .0000
WH_COL_198	.6062 (100) .0000	1.0000 (100) .0000	.6868 (100) .0000
MED_FAM_IN	.6100 (100) .0000	.6868 (100) .0000	1.0000 (100) .0000
MED_AGE_19	-.1645 (100) .1019	.1486 (100) .1400	-.0390 (100) .6999
POP_1970_T	.3021 (100) .0022	.1034 (100) .3060	.0375 (100) .7108
POP_1980_T	.3741 (100) .0001	.4260 (100) .0000	.2059 (100) .0399

	Coefficient	(sample size)	significance level

TABLE 6-53 (CONTINUED)

	MED_AGE_19	POP_1970_T	POP_1980_T
YES_INDEX_	-.1696 (100) .0915	.1745 (100) .0825	.1042 (100) .3021
BLACK_SHAR	.0331 (100) .7434	-.0976 (100) .3342	-.0691 (100) .4948
URB_1980	.2158 (100) .0311	.2175 (100) .0297	.2756 (100) .0055
MED_SCH_19	-.1645 (100) .1019	.3021 (100) .0022	.3741 (100) .0001
WH_COL_198	.1486 (100) .1400	.1034 (100) .3060	.4260 (100) .0000
MED_FAM_IN	-.0390 (100) .6999	.0375 (100) .7108	.2059 (100) .0399
MED_AGE_19	1.0000 (100) .0000	-.3132 (100) .0015	-.0538 (100) .5953
POP_1970_T	-.3132 (100) .0015	1.0000 (100) .0000	.6132 (100) .0000
POP_1980_T	-.0538 (100) .5953	.6132 (100) .0000	1.0000 (100) .0000

	Coefficient	(sample size)	significance level

TABLE 6-54

Regression of the sum of Senate votes on Gramm-Rudman on various economic and demographic variables.

Independent variable	coefficient	std. error	t-value	sig.level
CONSTANT	18.871568	17.99516	1.0487	0.2971
SENATE. BLACK_SHAR	-1.261796	2.216107	-0.5694	0.5705
SENATE. URB_1980	-0.471762	1.37535	-0.3430	0.7324
SENATE. MED_SCH_1980	-1.109369	1.484839	-0.7471	0.4569
SENATE. MED_AGE_1980	-0.075183	0.084222	-0.8927	0.3744
SENATE. WH_COL_1980	-3.53344	5.595641	-0.6315	0.5293
SENATE. POP_1970/80	0.979936	1.21832	0.8043	0.4233
SENATE. POP_1980/90	1.261022	1.437064	0.8775	0.3825
SENATE. MED_FAM_IN	0.000055	0.000068	0.7976	0.4272

R-SQ. (ADJ.) = 0.0044 SE= 1.138968 MAE= 0.905025

DurbWat= 2.254

100 observations fitted, forecast(s) computed for 0 missing val.
of dep. var.

Conclusion

This chapter has compared some demographic and economic coalitions in both the House and Senate on both the Kennedy tax cut and the Gramm-Rudman Act. The comparison with the previous chapter on partisan and regional alignments should be clear and striking: if there are economic coalitions behind the passage of either act, they are not obvious, or at least they work in subtle ways.

What patterns that are present are more apparent in the House than in the Senate. In general, urban, slow-growth and black constituencies elect Members who are more likely in both periods to support fiscal activism and oppose its limitation. This constituency appears to be a firm core base for such policies.

As the prior chapter showed, however, this core constituency never constituted a majority and was declining relative to other constituencies throughout the period under review. Moreover, in the Senate, with broader State-level constituencies, the desires of these subgroups seems to have been washed out altogether. For what reason is not entirely clear, though one can speculate. The final chapter will sort through some possible explanations.

CHAPTER 7: THE INSTITUTIONS OF CONGRESS

The Congress which President Kennedy had to face was a quite different place as an institution than the Congress of President Reagan. As we have seen, the policies which those two men produced were also quite different. The question naturally arises as to whether those differences in the institution led to the differences in the policy.

Kennedy's Congress

Depending on how one looks at things, the Congress of Kennedy's day was either a golden age or a dark age. "Whig" historians tend to look on the 1960's as the twilight of an era of strong and principled leaders, of "profiles in courage," to use Kennedy's phrase, of great issues and great debates.

On the other hand, those basking in the aftermath of Watergate have seen the 1960's as the last gasp of a corrupt and closed order, where stubborn and willful reactionaries cut deals in private and stifled progress in public.

Both of these caricatures capture different sides of the flavor of the reality at the time. For the national legislature of the New Frontier was indeed a more tightly controlled, more superficially collegial, and more private club than that same legislature of the Reagan era.

A basic unit of formal decisionmaking in the Congress is in the Committee. Legislation offered in the form of bills are automatically referred to Committee and must be reported out of that Committee before they can be voted on the floor. As

far as legislation goes, committees are therefore quite important. For example, in the 94th Congress, of the 16,982 bills introduced, only 985 were reported out to the floor (Hinckley 1988, 140).

In Kennedy's House and Senate, Committee government was the order of the day. All House action had to be funnelled through the Rules Committee before a vote could be taken on the House floor. Thus the Rules Committee was particularly powerful, and Kennedy had the misfortune of having a conservative Democrat, Howard W. Smith of Virginia, referred to as "Judge Smith", as Chairman of the Committee. The Committee had no regular meeting day and could only be convened by the Chairman (Congressional Quarterly 1991a, 62).

The Rules Committee in many ways was typical of the rest of the House. In that body, Committee government dominated, aided by passage of the 1946 Legislative Reorganization Act which concentrated power in the hands of approximately 20 committee chairs. This era has been referred to as "brokerage politics" where committee chairmen attempted to aggregate the numerous competing policy interests within their committees jurisdictions. During this period most hearings, debates and mark-up sessions were held at a Committee level, and those that were not were subject to Committee review and change (Dodd and Oppenheimer 1985, 34-64, 43-47).

The Senate was similar to the House in this regard. The conservatism and power of committees in the Senate, as in the House, was reinforced by informal processes, seniority rules

being prime among them. The only formal guidance on how committee membership and leadership should be determined is that the House and Senate should determine it for themselves.

Seniority proved to be the way that Congressional leaders chose to determine succession to Committee and other leadership posts. Because of the Democrats' almost unbroken control of the Congress after World War II, there was relatively little turnover and long tenures for Democrats elected from safe seats, mainly Southerners and those representing urban areas. This stability in tenure combined with seniority to ensure that Committees were tightly controlled by either Southerners or Northern Democrats, and that Committee chairmen held their positions for a long time (Congressional Quarterly 1991a, 454-455).

Congressional leadership was equally stable in this period, and challenges to it were hidden and nascent (the Democratic Study Group of mostly liberal northerners was formed in this period, but their successes would not come until the 1970s). House Speaker John McCormack took over after Sam Rayburn's death in 1961, and was followed by Carl Albert. Mike Mansfield spanned both Kennedy and Johnson's terms as Majority leader in the Senate. Each of these men were nonaggressive and deferred to the President.

Republican leadership was much more dilatory and assertive. Senate Minority Leader Everett Dirksen spanned both terms and was a consummate dealmaker, producing extramajoritarian victories for civil rights cloture votes and foreign policy decisions. House Minority Leader Charlie Halleck was, on the other hand,

equally assertive in his uniform opposition to anything coming out of the White House. After Halleck's unseating subsequent to the 1964 Republican election debacle, Gerald Ford took over and, while less nasty, he was equally uncooperative (Renka 1985, 809). Thus, in the Kennedy era, leadership, which could have served as a check on the power of the Committee chairmen, largely left them alone.

Because of the power and cohesion of major Committees, Kennedy's main obstacle to passage of his tax bill were the tax-writing Committees, the House Ways and Means Committee and the Senate Finance Committee. An extensive study of the Ways and Means Committee (and to a lesser extent, the Finance Committee and Joint Committee on Taxation) during the Kennedy years paints a picture of a consensus oriented Ways and Means Committee under the tutelage of Wilbur Mills, acting in close concert with ranking minority member Brynes (Manley 1970, 101-110).

In particular, Mills sought compromises which would not just pass his Committee (relatively liberal in membership), but also would prevail on the House floor. Hence, Mills would seek not just a simple majority in Committee, but a super-majority (Manley 1970, 112-113). The fact that Mills was respected for his tax expertise, and had a good sense of what was winnable (hence his rarely losing a vote) helped make him the dominant figure in the Committee and in tax policy generally (Manley 1970, 147-150).

The bigger obstacle, from Kennedy's point of view, was the

Senate Finance Committee led by the fiscal conservative, Harry Flood Byrd, Democrat of Virginia. While there were some reform liberals on Finance, such as Senators Paul Douglas and Albert Gore, the majority were conservatives, and they found a strong leader in Byrd (Manley 1970, 314).

Of course, in one important sense, Committees were not very important, for ultimately it was the votes of a majority of House and Senate members present and voting that carried the day on a given bill. From a formal procedural point of view, the rules in Kennedy's time were quite similar to those of Reagan's day. The House had strict rules on amendments to bills on the floor. The Rules Committee generally kept a tight rein on the amendments which could be considered in a floor vote and debate on measures was strictly controlled. The rule on the Kennedy Tax Cut was especially tight, and the source of much complaint from House Republicans. House amendments were still voted through nonrecorded procedures, and Rules, Ways and Means and Appropriations were all structurally unchanged except for Rules' expansion from 12 to 15 seats in 1961. Reformers such as Richard Bolling pressed for change but were unaided by the White House and managed to do little (Renka 1985, 810).

By contrast, formal Senate rules on the floor were much looser, and amendments from the floor much easier to present. Of course, ensuring passage of those amendments was another matter. Given the primacy of Senate Committees, the respect for seniority, and the customs of the Senate, renegade action on the floor was

relatively rare during this time.

Mention must be made of Kennedy's relationship style with Congress. Kennedy was the first president to employ a full-scale White House lobbying effort with close links to the President and capacity to coordinate departmental lobbying. The Congressional Relations Office under Lawrence F. O'Brien set up ground-rules which became well established and remained intact after the assassination. Policy and patronage concessions were funneled through the office, quid pro quos were never explicitly acknowledged, direct canvasses of Members were taken on competitive votes and the President was brought in to talk to key Members only as a last resort (Renka 1985, 808-809).

Kennedy's image as a convincing legislative leader is mixed however. His New Frontier program was tied up in 1963, but Capitol Hill journalists generally said Kennedy was effectual as a leader (Renka 1985, 812).

Reagan's Congress

The Congress which Reagan faced in his second term provides a sharp institutional contrast to that faced by Kennedy. In particular, the post-Watergate reform era had intervened, and the Congress had become a more open, and more unruly place, to say nothing of its greater organizational complexity.

In the House, liberals and junior Members increasingly challenged the dominance of Committees. In what were known as the Hansen Committee reforms, the Subcommittee Bill of Rights was passed in 1973 and various rule changes were made which moved the selection

of subcommittee chairs away from respective committee chairs and gave this responsibility to the full committee caucus of the majority party, and gave subcommittees a codified jurisdiction and control over their budgets and staff.

In addition, Members were limited to chairmanship of only one committee. Committee chairs lost the right to determine the number, size and majority party membership of subcommittees; lost the power to appoint subcommittee chairs; and lost control over referral of bills to the full committee. Committee chairs were also stripped of their power to prevent their subcommittees from meeting.

The selection of Committee chairs was also much more liberal than during Kennedy's tenure, when House and Senate leaders and seniority rules ensured that Committee members had almost no direct say over the selection of their Chairman. Members of each committee were now allowed to bid in order of seniority, for subcommittee chairs. The Member bidding would have to garner the support of a majority of the committee's majority Members. If defeated, another Member could bid. Committee chairs still were left with substantial formal control over the full committee's staff and budget and substantial informal control over its agenda and schedule. Committees also still acted as a sort of appeals court to consider and modify legislation drafted in subcommittee, but in practice, little was changed, and subcommittee legislation was usually referred to the Rules committee or the floor.

The result of all these changes was that there were many

more subcommittees than there used to be, more subcommittee hearings relative to committee hearings, and more junior members on committees. In the 86th Congress, there were 113 standing subcommittees and 20 committees, 126/20 in the 89th, 139/22 in the 96th and 135/22 in the 98th, and 142/22 in the 99th Congress. The number of individuals holding at least one subcommittee chair rose from 102 in the 86th Congress to 138 in the 96th to fall back to 137 in the 98th. Around 36% of Democrats held at least one chair in the 86th, over 50% in both the 96th and 98th. While only 20 to 30% of committee hearings occurred in subcommittees in the 1950s, 90% took place there in the first session of the 95th Congress (Dodd and Oppenheimer 1985, 43-47). The 99th Congress numbers come from a different source. There are small discrepancies in these numbers from different sources due to how subcommittees of select and special committees and joint committees are treated and because subcommittees may not last the life of the whole session (See Ornstein et. al. 1991, 118, 113)). These changes were reflected in the Senate as well. The Senate had become a more egalitarian institution with respect to committees. Democrats used a 21-member Steering Committee chaired by the Majority Leader to assign Senators to Committees, while Republicans had an 18 member Committee on Committees with an elected leader. When Lyndon Johnson became Majority Leader in 1955, he instituted the Johnson Rule which guaranteed every Democrat, no matter how junior, a major Committee assignment. However, Johnson tightly controlled the process and senior Democrats continued to dominate

the most senior committees. Mike Mansfield changed this policy to a much more collegial policy, and Robert Bryd, when he became Majority Leader in 1977, continued this approach.

In 1970 a rule was adopted that limited Senators to service on only one of the Senate's 4 most prestigious committees: Appropriations, Armed Services, Finance and Foreign Relations. Both parties also adopted rules limiting the use of seniority in selection of committee chairmen. In 1973 the Republican Caucus agreed to a system where the Republican members of each committee would elect the ranking member and in 1975 Democrats followed with a proposal of their own which permitted secret ballot votes by the caucus on any Committee chairman if 20% of Democratic Senators requested it.

That same year, junior members got S. Res. 60 adopted which permitted them to hire additional legislative staff members to assist in their committee duties. Finally, also that year, the number of votes needed to invoke cloture (that is, to close debate on a measure and proceed to a vote) was reduced from 66% to 60%. Shortly thereafter, most Senate proceedings were opened to public and press (Ornstein et. al. in Dodd and Oppenheimer, 1985, 19-20).

In 1977 junior liberal Democrats, led by John Culver of Iowa, contested the Steering Committee's choices and won an agreement, still in effect, that all such choices in the future would be subjected to approval by party membership. Overlain on this whole process in the Senate was seniority which generally did

hold in succession contests though not without exception.

As a result of these changes, the average seniority of membership on prestigious standing committees (Foreign Relations, Appropriations, Finance and Armed Services) declined compared to the 80th to 84th Congresses, reaching a low with the 96th Congress and then rebounding in the 98th Congress. For example, the mean seniority in years at time of appointment to the Finance Committee fell from 3 years in the 80th-84th Congresses to 1.1 in the 96th Congress and back up to 2.6 years in the 98th Congress. At the same time, the predominance of seniority for Democrats kept relatively conservative Southerners in power while, when the Senate flipped from Democratic to Republican control in 1980, relatively moderate Republicans took over key Committee assignments (Ornstein et. al. in Dodd and Oppenheimer 1985, 26-27).

Meanwhile, the number and size and staffs of Senate committees and subcommittees grew dramatically. In 1957 there were 15 standing committees and 118 subcommittees while in 1975 there were 18 standing committees with 140 subcommittees, 31 committees and 174 subcommittees in all if special, select and joint committees were counted. In 1957 each Senator averaged 2.8 committee assignments and 6.3 subcommittee assignments while in 1976 Senators served on 4 committees and 14 subcommittees. This trend was reversed somewhat by the 1976 creation of the Temporary Select Committee to Study the Senate Committee System, but remained above the trends holding during Kennedy's administration. By the 99th Congress, there were 16 Senate standing committees, 90 subcommittees

of standing committees, 4 select and special subcommittees, 4 joint committees and 6 subcommittees of joint committees (Ornstein et. al. 1991, 19).

Taking a slightly broader time-frame, and comparing House and Senate directly, the mean number of standing Committee assignments in the House per Member was 1.2 in the 84th Congress, and 1.8 in the 99th. In the Senate, the comparable numbers were 2.2 and 2.8. The mean number of subcommittee assignments had grown even more with 1.6 in the 84th Congress House and 4.0 in the 99th Congress House, and 4.8 in the 84th Congress Senate and 6.9 in the 99th Congress Senate. Combined with other committee assignments, which also increased over the period, the "average" House Member would be assigned to 3.0 legislative panels of some sort and the "average" Senator to 7.9 in the 84th Congress, while respectively serving on 6.6 and 10.6 in the 99th Congress (Ornstein et. al. 1991, 120).

Not only were legislators serving on more committees by the time of Reagan's tenure, more legislators in toto were chairing a committee or subcommittee. In the 84th Congress, 63 of 232 majority party members, or 27.2%, chaired a standing subcommittee of committee, and 18 of these held two or more chairmanships. The 90th Congress contained 111 out of 247 majority members, or 44.9% in a similar position, with 32 of those holding 2 or more such positions. By the 99th Congress, 129 out of 253 House Democrats were chairs of one sort of panel or another (51%), though relatively fewer - 28 - held 2 or more chairmanships (Ornstein

et. al. 1991, 121).

For the Senate, the trends were similar. 42 out of 48 majority party members - 87.5% of the total - were chairing a committee or subcommittee, while in the 99th Congress, 49 out of 53, or 92.4% held such positions (Ornstein et. al. 1991, 122). It is important to note, however, that the Senate was coming down from a trend (the 96th Congress had 98.3% of its members in chairmanships) while the House was holding steady near a peak (52.2% in the 96th Congress), and that the changes were of a greater relative magnitude in the House, at least in these terms.

One interesting statistic to consider is the regional distribution of Committee Chairmen in the Senate and House. In 1955, 63% of all standing Committee chairs in the House were held by Southern Democrats and of the three "power" Committees of Ways and Means, Rules and Appropriations, 67% were so held. By 1985, only 36% of the chairmanships were held by Southern Democrats, although they still held 2 of the 3 power committees chairs. (Dan Rostenkowski, Democrat of Illinois and Chairman of Ways and Means was the exception). In the Senate, 53% of Committee chairs were held by Southern Democrats, and 50% of the prestige committees in that body - Appropriations, Finance, Foreign Relations, and Armed Services - were so held. By 1985, with the Republicans in control, Southern Republicans held only 13% of the chairs, and none of the prestige leadership roles (Ornstein et. al. 1991, 123).

One other interesting trend in Committees is the number of meetings held which were open to the public. In 1955, House

and Senate Committee and Subcommittee meetings totalled 2940, 1055 of which were closed to the public. The Congress in 1963 held 3868 meetings, 1463 of which were closed, roughly the same proportion as in 1955. By 1975, 6325 meetings were held, and only 449 were closed, only 7% of the total (Ornstein et. al. 1991, 124). After that, so few meetings were closed that the statistics are not computed, a direct result of rules changes undertaken in 1970 and 1973 (Ornstein et. al, 1991, 116). Thus there were more formal meetings of committees and subcommittees, and more and more of these were open to the public (though it must be recognized that much work remains behind closed doors in party caucuses and leadership meetings).

It should be no surprise that with this rising Congressional activity, the size of the Congressional staff also rose dramatically. In 1987, the U.S. legislature had the largest staff in the world with 31,000 employees. By contrast, Canada's legislature was the second-best staffed with little more than a tenth as many employees, or 3,500 (Ornstein et. al. 1991, 123).

In 1957, House Members had personal staffs of 2441, while Senators had 1115. Reagan's Congress in 1985 contained House member staffs of 7528, roughly three times as many as in 1957, and Senate Member staffs of 4097, roughly four times as many (Ornstein et. al. 1991, 123). Committee staffs burgeoned with Member staffs, from well below a 500 for the House and Senate each in 1957 to 2146 in the House in 1985 and 1178 in the Senate that same year (Ornstein et. al. 1991, 130, 133).

In fiscal matters, there were many more Congressional staffers working on these issues under Reagan than under Kennedy. The staff of the Ways and Means Committee in 1960 was 22, while in 1985 it was 99 (Ornstein et. al. 1991, 137). The Senate Finance Committee had 6 staffers in 1960 and 54 in 1985 (Ornstein et. al. 1991, 138). The Budget committees of the House and Senate, which didn't even exist in 1960, had a combined staff of 190 in 1985 (Ornstein et. al. 1991, 137-138). This was in addition to the staff of the Congressional Budget Office - 222 in 1985 - and other organizations (Ornstein et. al. 19??, 139). With staff size grew the legislative budget, from \$150,426,185 in 1963 (\$86,304,923 in 1955) to \$1,599,977,138 in 1985 (Ornstein et. al. 1991, 140).

But what was this staff doing? By some measures, not much more than before. In the House of the 84th Congress, 13,169 bills were passed in the House, an average of 30.3 per Member. 2,360 of these passed, roughly 18% of those introduced (Ornstein et. al. 1991, 155). The Senators of that same Congress introduced 4,518 bills, or 47.1 per Senator, and passed 2,231 of them, or 54.7% (Ornstein et. al. 1991, 157). In the 99th Congress, House members introduced only 6,499 bills - 14.9 per member - and passed 1,061 of them, or 16.9%. The Senate introduced only 3,386 bills - 33.9 per Senator - and passed 940 of them, or 27.8%. (The comparable figures for Kennedy's last Congress, the 88th, was 14,022 House bills introduced, 32.2 per Member, 1,267 passed or 9% and 3,457 Senate bills introduced, 34.6 per Senator, 1,341 bills passed

or 38.8%). The trends between the years are fairly steady - the Congress was considering and passing fewer bills (though, of course, not all bills are created equal) (Ornstein et. al. 1991, 155). So why the need for all extra staff? In part, as noted above, there were many more committee and subcommittee meetings than before. And there were fairly dramatic increases in the number of recorded votes and time spent in session. Consider these numbers: The House in the 84th Congress had 147 recorded votes, and spent 230 days spread over 937 hours in session, or 4.3 hours per day. This trend would steadily rise before peaking at 1540 votes in the 95th Congress, spent in 323 days over 1876 hours, or 5.9 hours per day. The amount of time spent in this way then declined but in the 99th Congress, 890 recorded votes were taken in the space of 281 days over 1794 hours or 6.4 hours per day (Ornstein et. al. 1991, 155).

Trends were similar in the Senate. In the 84th Congress, 224 votes were taken in the course of the same number of days composed of 1,962 hours in session, 6.1 hours per day in session. The high-water mark in recorded votes came in the 94th Congress, with 1,290 such votes, taken in the course of 320 days, 2,210 hours in session, 6.9 hours per day. By the 99th Congress, 740 votes were taken over 313 days, consisting of 2,531 hours when business was transacted, an average of 8.1 hours per day (Ornstein et. al. 1991, 157).

In other words, both House and Senate were spending more time than before in meetings, on the floor and in votes. While

there was some relief in the number of votes, legislative days were growing longer.

Of course, the number of bills alone is a misleading measure. The content of those bills is the really important factor in determining workload. If the length of bills is at a proxy for weighty content, then bills were indeed more complicated than in Kennedy's day. In the 84th Congress, the average length of a statute - that is, bills enacted into law - was 1.8 pages. The 99th Congress saw a peak in this regard at 10.8 pages. Bills were certainly growing longer at any rate (Ornstein et. al. 1991, 160).

There is no doubt that Reagan's Congress was a more decentralized, more publicized (though not necessarily more open), more heavily staffed, and more frenetically engaged than the Congress of Kennedy. As far as the budget process went, it was also a far more complicated place as well.

In Kennedy's day, Congress handled the budget through its authorization and appropriations process. The Congressional Budget Act of 1974 had kept those processes intact and added another layer in the form of a budget process.

Although this layer was supposed to simplify and rationalize the completion and passage of a Federal spending plan, in many respects it seems to have merely added another level of effort to the whole process.

To take one example, budget cutting has historically been concentrated in the House which, under longstanding precedent,

considers appropriations bills prior to their consideration in the Senate. The House fulfills this role by guarding against amendments to raise appropriations on the House floor (Ornstein et. al. 1991, 170). In 1963, the 47 amendments were offered to House appropriations bills, 15 were adopted. 17 of the 47 were limitation amendments which bar the use of appropriated funds for specified purposes, and 7 of these were adopted. By 1981, 143 amendments were proposed, 47 being limiting amendments, and 87 passed, 33 of them limiting amendments (Ornstein et. al. 1991, 181). After 1983, a rule making it easier for the House to avoid consideration of such amendments lessened the trend, though it remained at a higher level than before (Ornstein et. al. 1991, 170).

This is but the tip of the iceberg, however. Although the trend is erratic, the number of regular appropriations bills not enacted by the start of the fiscal year, something which supposedly would be ameliorated by budget reform, increased from 5 in 1972, to 10 in 1980, 12 in 1981, 13 in 1982, 12 in 1983, 9 in 1984 and 9 in 1985 (Ornstein et. al. 1991, 182).

And while the percentage of budget-related roll calls did not increase over the period between Kennedy and Reagan (on average around half the roll-call votes taken), the number of such votes, like all others, increased in absolute number. In 1955, such roll-calls - on authorizations, appropriations, tax legislation, budget resolutions, reconciliation bills, debt ceilings, and miscellaneous items, was 37 in the House, and 37 in the Senate.

In 1965, the number was 104 and 125, respectively. By 1985, the same number was 220 and 230 (Ornstein et. al. 1991, 183-84).

Finally, Reagan's style with Congress was largely confrontational, even with his own party leadership in the Senate. As noted in earlier chapters, Gramm-Rudman was formulated without coordination with the White House and with open opposition on the part of some executive departments, especially the Defense Department. In addition, Reagan's ploy of "going directly to the people" in the form of nationwide television speeches was used quite often, particularly during his battle to pass the 1981 tax cut.

Conclusion

In many ways, there were continuities between the Congress of the Kennedy Tax Cut of 1964, and that of Gramm-Rudman. The institution remained one representative of the people and a check on the President. Budgetary and fiscal matters occupied much of the body's time in both periods.

But much had changed as well. The Congress met much more often, under the glare of camera lights, and took many more votes in absolute terms, under Reagan as compared to under Kennedy. There were more committees considering more issues. Committee chairs and House and Senate leaders were still powerful, but less so in that they had less party discipline, less restrictive rules to use as cudgels, and less respect for customs such as seniority.

The effect which these institutional changes had on the content and passage of the Kennedy Tax Cut and Gramm-Rudman is

somewhat uncertain, but a few conclusions can be reached. In particular, the nature of the bills affected the institutional mechanisms through which they had to pass and therefore probably had some effect on the formulation of the bills themselves. The Kennedy Tax Cut was a tax bill, thus had to originate in the House, required a hearing before the Finance Committee, and was subject to all the requirements of the tax-writing process in both the executive and legislative branches of government.

This fact meant a number of things. The passage of the Kennedy Tax Cut was more formal and the steps which had to be taken were thus clear and well-known, even if their outcome was not. Furthermore, because of the technical nature of tax bills, and because of the Constitutional requirements of tax legislation, two committees - Ways and Means and Finance - had supreme influence over the outcome. Two Southerners - Mills and Byrd - were thus forces to be reckoned with and certainly left their imprint on the bill. Given the especially great power of committee chairs in those days, it was clear that these two individuals could not be ignored on the floor, by either the Administration, which might hope to bypass them, or by individual Congressmen, who were loath to oppose them.

Gramm-Rudman, on the other hand, was not bound by essentially any formal procedure other than House and Senate rules and the prerogatives of Congressional leadership. No committee exercised direct jurisdiction over the measure, and neither leaders nor committee chairs had any certain authority to stop the measure;

indeed, the leadership's power was initially largely negative, in the sense that leaders could either stop the measure from coming to a vote (as House Democratic leaders did initially) or allow it to be debated and voted on (as Senate Republican leaders did). The only real power that leadership ultimately had, and it was a formidable one, was the power to select participants in, and affect the deliberations of, the conference committee. With Gramm-Rudman, this was where much of the negotiation took place, over the course of not one, but two conference committees.

Which leads to an ironic observation, namely that, despite the greater openness in Congress in 1985 versus 1964, the more secretive proceedings probably occurred during Gramm-Rudman. The tax-legislative process had more formal procedures and more requirements for deliberations than the more ad hoc process followed under Gramm-Rudman. Although committee chairs were relatively powerless in the latter instance, their superiors in the party leadership were not, and they exercised this leadership as fully as they could given the popularity of the measure.

CHAPTER 8: FISCAL AND MACROECONOMIC CONSTRAINTS

Past decisions have a way of affecting future decisions, sometimes to the extent of determining them. One way in which actions taken at one time affect actions taken at a later time is to by foreclosing options available at that later time. For example, if one spends all of one's resources and borrows up to one's credit limit as well, then it is ensured that opportunities for saving and spending will be severely limited for a long time to come. Another way in which past actions affect future actions is through learning. Touching a hot stove a couple of times guarantees that the stove will not be touched a third time, perhaps even if the stove is turned off.

The analogy can be extended to fiscal policy decisions. President Kennedy faced fiscal constraints that were far different than those faced by President Reagan, and their past experience with the macroeconomic performance of fiscal policies were also quite different. How binding these constraints were, and how powerful the lessons learned, is not easy to determine. This chapter will review the fiscal and macroeconomic contexts of the Revenue Act of 1964 and Gramm-Rudman.

Kennedy Budgets

Kennedy's first budget, that for FY 1962, reveals some of interesting trends. (Table 7-1 provides some relevant budgetary figures for both the Reagan and Kennedy eras). Almost half of the outlays in the budget went for national defense, while 30% was spent for human resources purposes. Both of these categories

of spending had been slowly edging in opposite directions since the 1950's. For example, Eisenhower's outlays for national defense had been almost 57% of the total while his human resources outlays stood at 27%.

More stasis appears when looking at outlays as a percentage of GNP. Between 1958 and 1962, only national defense changed significantly, falling from 10.4% of GNP to 9.4%. Spending in this area would continue to fall, hitting 7.5% of GNP in 1965. Only outlays on "other" functions changed significantly in this period, rising from 1.5% to 2.2% in 1962. With the end of the Korean Conflict and before significant involvement in Vietnam, requirements for Defense spending were easing significantly

TABLE 7-1: BUDGET TRENDS FOR KENNEDY AND REAGAN

(Outlays as a percentage of total outlays; receipts as a percentage of total receipts. Source: U.S. Office of Management and Budget 1991)

	Averages for...					Differences Between...	
	1958 to 1965	1958 to 1963	1960 to 1965	1978 to 1985	1980 to 1985	1958-65 and 1978-85	1960-65 and 1980-85
NATIONAL DEFENSE	49.9	51.7	48.2	24.5	24.4	-25.4	-23.7
HUMAN RESOURCES	29.2	28.8	29.9	52.2	52.5	23.1	22.6
PHYSICAL RESOURCES	8.1	7.8	8.3	9.0	9.1	1.0	0.8
NET INTEREST	6.9	6.8	7.0	10.6	10.5	3.7	3.5
OTHER FUNCTIONS	11.1	10.0	11.7	7.4	7.2	-3.7	-4.5
UNDISTRIBUTED OFFSETTING RECEIPTS	-3.8	-3.5	-3.4	-2.6	-2.4	1.2	1.0
TOTAL OUTLAYS	100.0	100.0	100.0	100.0	100.0	0.0	0.0
ON BUDGET	88.0	-88.6	-87.2	-80.6	-80.5	7.4	6.7
OFF BUDGET	-12.0	-11.5	-12.9	-19.4	-19.5	-7.4	-6.7

TABLE 7-1 (Continued): BUDGET TRENDS FOR KENNEDY AND REAGAN

(Outlays as a percentage of total outlays; receipts as a percentage of total receipts. Source: U.S. Office of Management and Budget 1991)

	Averages for...					Differences Between...	
	1958 to 1965	1958 to 1963	1960 to 1965	1978 to 1985	1980 to 1985	1958-65 and 1978-85	1960-65 and 1980-85
INDIVIDUAL INCOME TAXES	44.1	44.7	43.9	46.7	47.2	2.6	3.3
CORPORATE INCOME TAXES	22.0	22.2	21.5	10.4	9.9	-11.6	-11.6
SOCIAL INSURANCE TAXES	17.1	16.3	17.9	32.6	32.4	15.5	14.5
ON-BUDGET SOCIAL INSURANCE TAXES	-4.6	-4.6	-4.8	-9.6	-9.5	-4.9	-4.7
OFF-BUDGET SOCIAL INSURANCE TAXES	-12.4	-11.8	-13.1	-23.0	-22.9	-10.6	-9.8
EXCISE TAXES	12.7	12.8	12.5	5.3	5.5	-7.4	-7.0
OTHER TAXES	4.1	4.0	4.2	5.0	5.0	0.9	0.8
TOTAL RECEIPTS	100.0	100.0	100.0	100.0	100.0	0.0	0.0
ON BUDGET	-87.6	-88.3	-86.9	-77.0	-77.1	10.6	9.8
OFF BUDGET	-12.4	-11.8	-13.1	-23.0	-22.9	-10.6	-9.8

TABLE 7-1 (Continued): BUDGET TRENDS FOR KENNEDY AND REAGAN

(Outlays and receipts as a percentage of GNP; Source: U.S. Office of Management and Budget 1991)

	Averages for...					Differences Between...	
	1958 to 1965	1958 to 1963	1960 to 1965	1978 to 1985	1980 to 1985	1958-65 and 1978-85	1960-65 and 1980-85
NATIONAL DEFENSE	9.3	9.7	9.0	5.6	5.6	-3.7	-3.4
HUMAN RESOURCES	5.5	5.4	5.6	11.8	11.9	6.4	6.4
PHYSICAL RESOURCES	1.5	1.5	1.6	2.0	2.1	0.5	0.5
NET INTEREST	1.3	1.3	1.3	2.4	2.4	1.1	1.1
OTHER FUNCTIONS	2.1	1.9	2.2	1.7	1.7	-0.4	-0.5
UNDISTRIBUTED OFFSETTING RECEIPTS	-1.0	-1.0	-0.9	-0.8	-0.8	0.1	0.1
TOTAL OUTLAYS	18.6	18.8	18.6	22.7	22.8	4.1	4.2
ON BUDGET	-16.4	-16.6	-16.2	-18.3	-18.3	-1.9	-2.1
OFF BUDGET	-2.2	-2.2	-2.4	-4.4	-4.4	-2.2	-2.1

TABLE 7-1 (Continued): BUDGET TRENDS FOR KENNEDY AND REAGAN

(Outlays and receipts as a percentage of GNP; Source: U.S. Office of Management and Budget 1991)

	Averages for...					Differences Between...	
	1958 to 1965	1958 to 1963	1960 to 1965	1978 to 1985	1980 to 1985	1958-65 and 1978-85	1960-65 and 1980-85
INDIVIDUAL INCOME TAXES	7.8	7.9	7.9	8.8	9.0	1.0	1.1
CORPORATE INCOME TAXES	3.9	4.0	3.9	2.0	1.9	-1.9	-2.0
SOCIAL INSURANCE TAXES	3.0	2.9	3.2	12.6	14.7	9.5	11.5
ONBUDGET SOCIAL INSURANCE TAXES	-0.8	-0.8	-0.9	-1.8	-1.8	-1.0	-1.0
OFFBUDGET SOCIAL INSURANCE TAXES	-2.2	-2.1	-2.4	-4.3	-4.4	-2.1	-2.0
EXCISE TAXES	2.3	2.3	2.2	1.0	1.1	-1.2	-1.2
OTHER TAXES	0.7	0.7	0.8	1.0	1.0	0.2	0.2
TOTAL RECEIPTS	17.8	17.8	18.0	18.9	19.1	1.2	1.1
ON BUDGET	-15.5	-15.7	-15.6	-14.6	-14.7	1.0	1.0
OFF BUDGET	-2.0	-1.8	-2.0	-4.3	-4.4	-2.4	-2.3
NET DEFICIT	-0.9	-1.0	-0.6	-3.8	-3.7	-2.9	-3.1

As for revenues, the Federal budget was becoming more reliant on individual income and payroll taxes, and less on excise and corporate taxes. The trends are most pronounced in social insurance taxes which rose a full three percentage points as a share of total revenue between 1958 and 1962, and even more considering its base as 14% of revenues in 1958. At 17.1% of revenues in 1962, social insurance revenues were accounting for 20% more of total revenue than it had in 1958. Individual income taxes had grown by two percentage points as a share of total outlays, from 43.6% of total revenues in 1958, to 45.7% of revenues in 1962. Corporate income taxes had fallen more dramatically from 25.2% in 1958 to 20.6% in 1962, while excise taxes were down from 13.4% that year to 12.6%.

These trends are reinforced when looking at revenues as a percentage of GNP. In 1958, individual income taxes were equal to 7.7% of GNP and social insurance taxes equalled 2.5%. By 1962, the same shares were 8.2% and 3.2% respectively. Over the same period, corporate income taxes had fallen from 4.5% of GNP to 3.7%, while excise taxes remained relatively unchanged around 2.4%.

Between 1958 and 1962, revenues as a percentage of GNP rose from 17.7% to 18.3% in 1960, falling back to 17.9% in 1962 due to the effects of the recession. However, outlays were greater than revenues over the period. Outlays were equal to 18.3% of GNP in 1958, leaving a mismatch between outlays and revenues equal to 0.5% of GNP. This was Eisenhower's "benchmark" deficit

of \$12.8 billion against which Kennedy measured his fiscal responsibility. However, outlays exceeded revenues in every year between 1958 and 1962 except 1960.

Kennedy's fiscal position on the eve of his push for a big tax cut shakes out as follows. Revenues, particularly those from individual income taxes, were rising automatically, even in slow economic times. Social spending was rising slowly, but defense spending was falling more dramatically and was slated to fall more in the future. Total outlays were stabilizing around 19% of GNP. Deficits had become persistent in recent years, but were relatively small by the standards of the future.

One could interpret these facts as follows: fiscal constraints were loose enough that a tax cut of major proportions was affordable. However, outlays were high enough relative to revenues that the case for a tax cut was also not compelling, particularly in an atmosphere of relative skepticism regarding planned deficits. From this perspective, Kennedy's policy change was not a fait accompli.

Kennedy's policy did change some budgetary trends, as well as take advantage of them. The tax cut reduced individual income tax receipts as percentage of GNP, from 8.2% in 1962 to 7.3% in 1965. Social insurance receipts continued to climb over the period however, from 3.1% of GNP in 1962 to 3.3% in 1965. Total receipts declined from 17.9% of GNP in 1962 to 17.4% in 1965. Meanwhile, the continued decline of defense spending brought total outlays down 19.2% of GNP in 1962 to 17.6% in 1965, roughly

even with revenues. If the Kennedy tax cut was a luxury, it was an affordable one for the time.

Reagan Budgets

Reagan's fiscal picture was quite different. The relative importance of social versus defense spending was almost reversed. In 1978, defense spending accounted for close to 23% of total outlays, while human resources accounted for close to 53%. True to his word in the 1980 campaign, Reagan tried to change these rankings, helped along by Carter's shift in priorities in his last year as President. By 1982, national defense was close to 25% of the total budget, while human resources spending had declined to 52% of the total. By 1985, the arms buildup had pushed defense spending up to close to 27% of total spending, human resources spending down to below 50%.

These trends were just as pronounced when considering outlays as a share of GNP. In 1978, defense spending was equal to 4.8% of GNP, while by 1985 it was up to 6.4%. Social spending had also risen over the period, from 11.2% in 1978 to 11.9% in 1985, though it had fallen from its peak of 12.8% in 1983.

Revenues, meanwhile, were continuing to come more from individual income taxes and social insurance levies, and their burden, relative to the overall economy, had increased somewhat compared to the Kennedy era. Individual income taxes reached a peak of 48.2% of the budget in 1982, and social insurance taxes rose continuously over the period, constituting 36.1% of total receipts by 1985. The 1981 tax cut, ERTA, did reduce the proportion of taxes coming

from individual income taxes, but its 1984 low of 44.8% of total revenues in 1984 was not far below the 45.3% share of 1978.

Once again, the same trends are reinforced when looking at receipts as percentage of GNP. Individual income tax receipts peaked at 9.6% of GNP in 1981. By 1985, the year that Gramm-Rudman was enacted, receipts constituted 8.5% of GNP, still above the 8.3% of GNP such receipts accounted for in 1978. Meanwhile, social insurance levies continued their inexorable rise, from 5.6% of GNP in 1978, to 6.7% in 1985. In not one year during the period did this proportion go down.

Taxes on individuals, in the form of direct income taxes and social insurance taxes, had become the main revenue engines of the Federal government. The corporate tax burden had been coming down since the 1960's, measured both as a share of total revenues and as a percentage of GNP. Roughly 22% of all Federal revenues had come from corporate income taxes over the period of 1960 to 1965; for the period of 1980 to 1985, the proportion had fallen by more than half. When measured as a percentage of GNP, the fall in corporate taxes was even more dramatic, from 3.9% of GNP between 1960-65 down to 1.9% between 1980-85. Excise taxes too had fallen over the same time frame. 12.5% of total receipts, equalling 2.2% of GNP, had been drawn from excise taxes between 1960-65, versus 5.5% (1.1%) respectively between 1980-85.

It is interesting to compare some averages for the Kennedy era to the Reagan era. Several factors are particularly striking. First, defense spending and human resources spending had reversed

their relative importance. Comparing the average annual share of outlays on national defense between 1960-65 and 1980-85, one finds that roughly 25 percentage points more was spent on defense in the former period compared to the latter period. This slack was taken up almost entirely by human resources spending, differing over the same period by roughly 23 percentage points. The rest of the difference was more than taken up by natural resources spending and spending to pay interest on the debt.

Spending on interest on the debt had increased because the deficit had increased significantly. Revenues were higher as a percentage of GNP - accounting for 1.1% more as a share of GNP on average between 1980-85 compared with 1960-65 - but outlays were even higher, accounting for 4.1% more of GNP over the same period. The gap between outlays and revenues averaged close to 4% of GNP between 1980-85, while the gap between 1960-65 was only 0.6%.

As deficits accumulated, debt accumulated and interest on the debt was becomingly an increasingly large fixed expense. Net interest payments averaged 6.8% of total outlays over 1960-65, or 1.3% of GNP. In 1980-85, the average share of outlays was 10.5% or 2.4% of GNP, surpassing relative spending on natural resources.

From a strictly budgetary point of view, Reagan's tax cuts were a much less obvious course of action than the Kennedy tax cut. Simply speaking, these cuts could not be afforded unless one accepted the premise that the incentive effects of lowered

taxes would produce economic growth that would be as truly outstanding as the supply-siders had promised.

Given that Gramm-Latta was passed however, and given that past revenue and outlay trends were not advantageous to easy deficit reduction, the attractiveness of Gramm-Rudman becomes more obvious. Federal revenues seemed to have reached a cap of around 19% while outlays were stuck around 23%. Reagan wanted to increase defense spending and was only modestly successful in reducing discretionary domestic spending. Moreover, entitlement programs such as Social Security were politically untouchable and continued their inexorable rise. Given seemingly fixed spending and revenue limits, Gramm-Rudman seemed to offer a way out, if one actually expected it to work as planned.

Kennedy Macroeconomics

As noted earlier, Kennedy faced what was then thought to be substandard economic performance. Recessions, so the thinking of the time went, had been getting more frequent, were lasting longer, and were attaining more severe troughs. By the time Kennedy took office in January, 1961, there had already been three recessions, one of which was just ending. These classical cycles - absolute declines in business activity as opposed to changes in growth relative to baseline trends which are referred to as growth cycles - had grown increasingly short in their expansion phase. The expansion following the 1954 cycle trough following the Korean War lasted 45 months, that following the 1958 trough lasted 39 months and that following the 1961 trough, occurring

in the month after Kennedy's inauguration, was to last only 24 months (Boehm 19??, 29).

Meanwhile, the unemployment levels for these cycles were rising. Between the peak of the 1953 cycle and the 1957 cycle, unemployment at the peak of the cycle was 4.0%, and 5.7% at the trough, averaging 4.3% from peak to peak. For the similar period between 1957 and 1960, unemployment at the peak was 4.0%, and 7.2% at the trough, averaging 5.7% over the period (Summers 19??, 343).

Unemployment did not impact all groups equally, of course. Unemployment was highest for teenagers, the unskilled and blacks. For the period 1960-65, the average unemployment rate for males aged 16 to 19 was 15.7%, for females in the same age range, 15.7%, and for blacks and other nonwhites, 10.3%. By contrast, unemployment among experienced wage and salary earners was 5.5% and even lower among males 20 years and older who were presumably more skilled.

Price inflation was relatively modest by the standards which would come later, but the trend was upward. The recessionary year of 1958 saw the CPI rise by 2.8%. This performance was not to be repeated, but year-to-year changes in the index would increase, from 0.7% in 1959, to 1.7% in 1960, down to 1% in both 1961 and 1962 and up to 1.3% in 1963 and 1964.

What was the cause of these problems? The first report of the Kennedy Council of Economic Advisers was very clear in its diagnosis: "Economic recovery ... is far more than a cyclical problem. It is a problem of chronic slack in the economy...One

symptom of increasing noncyclical slack is that successive upswings are shorter and weaker (Statement of the CEA before the Joint Economic Committee, 3/6/61, as reprinted in Tobin and Weidenbaum, 1988, 25)."

Since there was unused capacity in the economy, there was a natural role the government can play in pumping up demand. Once demand had expanded, supply could be expected to rise to meet it, thus bringing down the unemployment rate. The full employment objective was 4 percent. "It is an attainable objective. If the target has seemed out of range in recent years, the fault lies in our poorer marksmanship (Statement of the CEA before the Joint Economic Committee, 3/6/61, as reprinted in Tobin and Weidenbaum, 1988, 27-29)."

Clearly the government was the main cause of the preceding economic malaise but it was its sins of omission which were the problem. The government had not done enough in the past, and had abdicated its stabilizing role.

This government inaction was seen as at the root of the productivity slowdown. The fall in productive efficiency was partly a human capital problem but was mainly due to "the failure of market demand to expand adequately." Manpower education programs could help solve the human capital deficiency. As for the slack demand:

In the long run, productive potential will not grow faster than the demand for output for consumption and investment purposes, for public expenditures and for export. The best stimulus to capital expansion is pressure on present capacity, and that has been noticeably lacking in most industries since the mid -50's (Statement

of the CEA before the Joint Economic Committee, 3/6/61, as reprinted in Tobin and Weidenbaum, 1988, 35).

If government inaction was the cause of the problem, it followed that government action was the solution. In his statement introducing his Economic Report, Kennedy claimed: "The business cycle does not have the inevitability of the calendar. The government can time its fiscal transactions to offset and to dampen fluctuations in the private economy (Council of Economic Advisers 1962, 17)."

Besides altering the timing of government expenditures, Kennedy endorsed a major tax cut which would increase demand, particularly demand for capital. Specifically, he noted that "the center-piece of these [tax] proposals is the 8 percent tax credit against tax for gross investment in depreciable machinery and equipment (Council of Economic Advisers 1962, 26)." Thus the investment tax credit, the little used innovation of the Eisenhower administration, came into its own.

The Council of Economic Advisers focused on an additional role for government which is no longer so loudly trumpeted, namely its role in increasing social equity:

Despite the enviably high average standard of living the country already enjoys, the age of abundance is not yet with us....Averages conceal pockets of poverty and missed opportunity especially among the aged, the uneducated, nonwhites, and families broken by disease, death or divorce. An equitably distributed increase of private consumption has a strong claim on the extra output available from stepped-up growth.

There are also vital public uses for output. On the domestic scene, the President has pointed to the urgent needs for expanded resource use in education (for leisure as well as work), in health and medical research, in the renewal and beautification of our cities, in highways, water supply and the control of pollution, and in conservation

(Statement of the CEA before the Joint Economic Committee, 3/6/61, as reprinted in Tobin and Weidenbaum, 1988, 36-37)."

Once the state succeeded in its role as promoter of economic growth, it could take on a new expanded role in providing public goods and redistributing the growth "dividend" to the poorer members of society. Growth would benefit everyone, but the government would play an active part in channeling the benefits.

The Council felt that fiscal policy could achieve all of these goals:

Monetary policy must at all times be flexible and interest rates must be higher in booms than in recessions. But the larger the share of the task of preventing inflationary excesses of demand that is assigned to fiscal policy, the smaller the burden that will fall on restrictive monetary policy (Statement of the CEA before the Joint Economic Committee, 3/6/61, as reprinted in Tobin and Weidenbaum, 1988, 42)."

The Federal Reserve and the Treasury are pursuing policies to reduce the cost and increase the flow of long-term credit while keeping short-term interest rates from falling to levels which would lead to further withdrawals of short-term capital (Statement of the CEA before the Joint Economic Committee, 3/6/61, as reprinted in Tobin and Weidenbaum, 1988, 55)."

While the days before the Treasury-Fed Accord of 1954 would not be repeated, the Council was clearly calling for an accommodating Fed.

These theories were part of what was referred to as the neoclassical synthesis or the New Economics. The ideas did not all originate with the Kennedy administration, but this was the first time a President had proposed a set of policy measures in these terms. Not everyone accepted this analysis, but it was plausible that the economy needed some fiscal stabilization

on the part of the Federal government.

Reagan Macroeconomics

By the Reagan era, this optimism of an earlier era was replaced by a cynicism. The era of stagflation had come with full force, and in most people's minds, Keynesian demand management had failed to live up to its promise.

In one sense, the economy had recovered from the doldrums of the Kennedy age. The 1960's had witnessed the longest postwar expansion which lasted 106 months. After a brief recession, the subsequent recoveries of 1970-73, and 1975 to 1980, from trough to peak lasted 36 months and 58 months respectively, seemingly better than the average length of expansion during the two expansions which preceded the Kennedy administration. Those two recoveries, of 1954-57 and 1958-60, lasted 39 and 24 months respectively (Boehm 19??, 29).

Measured against most other dimensions of economic performance, however, the economy of 1980-85 was a significantly poorer performer than the same economy of 1960-65. Table 7-2 reveals these trends particularly starkly.

TABLE 7-2: MACROECONOMIC TRENDS OF KENNEDY AND REAGAN ERAS

NOMG = Nominal GNP in \$ billions
 GRWN = Percentage change in nominal GNP from prior year
 RELG = Real GNP in \$ billions of 1982 \$
 GRWR = Percentage change in real GNP from prior year
 CPIG = Percentage change in CPI from prior year
 3MOT = 3 month Treasury Bill rate (annual average)
 PROD = Annual Percentage Change in Business Productivity

YEAR	NOMG	GRWN	RELG	GRWR	CPIG	3MOT	PROD
1958	456.8	1.3	1539.2	-0.8	2.8	1.8	2.9
1959	495.8	8.5	1629.1	5.8	0.7	3.4	3.3
1960	515.3	3.9	1665.3	2.2	1.7	2.9	1.7
1961	533.8	3.6	1708.7	2.6	1.0	2.4	3.6
1962	574.6	7.6	1799.4	5.3	1.0	2.8	3.6
1963	606.9	5.6	1873.3	4.1	1.3	3.2	4.0
1964	649.8	7.1	1973.3	5.3	1.3	3.5	4.4
1965	705.1	8.5	2087.6	5.8	1.6	4.9	3.0
1978	2249.7	13.0	3115.2	5.3	7.6	7.2	0.9
1979	2508.2	11.5	3192.4	2.5	11.3	10.0	-1.1
1980	2732.0	8.9	3187.1	-0.2	13.5	11.5	-0.2
1981	3052.6	11.7	3248.8	1.9	10.3	14.0	1.5
1982	3166.0	3.7	3166.0	-2.5	6.2	10.7	-0.7
1983	3405.7	7.6	3279.1	3.6	3.2	8.6	2.3
1984	3772.2	10.8	3501.4	6.8	4.3	9.6	2.5
1985	4014.9	6.4	3618.7	3.4	3.6	7.5	2.0

TABLE 7-2 (Continued): MACROECONOMIC TRENDS OF KENNEDY AND REAGAN ERAS

NOMG = Nominal GNP in \$ billions
 GRWN = Percentage change in nominal GNP from prior year
 RELG = Real GNP in \$ billions of 1982 \$
 GRWR = Percentage change in real GNP from prior year
 CPIG = Percentage change in CPI from prior year
 3MOT = 3 month Treasury Bill rate (annual average)
 PROD = Annual Percentage Change in Business Productivity

ANNUAL AVERAGE OVER MULTI-YEAR PERIODS

YEARS	NOMG	GRWN	RELG	GRWR	CPIG	3MOT	PROD
1958-1965	567.3	5.8	1784.5	3.8	1.4	3.1	3.3
1960-1965	597.6	6.1	1851.3	4.2	1.3	3.3	3.4
1960-1963	557.7	5.2	1761.7	3.6	1.3	2.8	3.2
1978-1985	3112.7	9.2	3288.6	2.6	7.5	9.9	0.9
1980-1985	3357.2	8.2	3333.5	2.2	6.9	10.3	1.2
1980-1983	3089.1	8.0	3220.3	0.7	8.3	11.2	0.7

MULTI-YEAR AVERAGES COMPARED:

(1)	-2545.4	-3.4	-1504.1	1.2	-6.1	-6.8	2.4
(2)	-2759.7	-2.1	-1482.2	2.1	-5.5	-7.0	2.2
(3)	-2531.4	-2.8	-1458.6	2.9	-7.1	-8.4	2.5

NOTES: FIGURES ABOVE REPRESENT DIFFERENCE BETWEEN ANNUAL AVERAGE FOR:

- (1) 1958-1965 & 1978-1985
- (2) 1960-1965 & 1980-1985
- (3) 1960-1963 & 1980-1983

TABLE 7-2: CONTINUED

3MTG = Change in 3-month Treasury Bill rate from prior year
 10YT = 10-year Treasury Bond Rate
 10YG = Change in 10-year Treasury Bond Rate from prior year
 3-10 = Difference between 3-month T-bill and 10-year T-bond
 DJIA = Dow Jones Industrial Average
 DJIG = Change in DJIA from prior year
 BFRT = Business failure rate (Percentage)

YEAR	3MTG	10YT	10YG	3-10	DJIA	DJIG	BFRT
1958	-83.3%	3.3	-12.1%	-1.5	491.7	3.3%	55.9
1959	47.1%	4.3	23.3%	-0.9	632.1	22.2%	51.8
1960	-17.2%	4.1	-4.9%	-1.2	618.0	-2.3%	57.0
1961	-20.8%	3.9	-5.1%	-1.5	691.6	10.6%	64.4
1962	14.3%	4.0	2.5%	-1.2	639.8	-8.1%	60.8
1963	12.5%	4.0	0.0%	-0.8	714.8	10.5%	56.3
1964	8.6%	4.2	4.8%	-0.7	834.1	14.3%	53.2
1965	28.6%	4.3	2.3%	0.6	910.9	8.4%	53.3
1978	26.4%	8.4	11.9%	-1.2	820.2	-9.1%	23.9
1979	28.0%	9.4	10.6%	0.6	844.4	2.9%	27.8
1980	13.0%	11.5	18.3%	0.0	891.4	5.3%	42.1
1981	17.9%	14.4	20.1%	-0.4	932.9	4.4%	61.3
1982	-30.8%	12.9	-11.6%	-2.2	884.4	-5.5%	89.0
1983	-24.4%	10.5	-22.9%	-1.9	1190.3	25.7%	110.0
1984	10.4%	11.9	11.8%	-2.3	1178.5	-1.0%	107.0
1985	28.0%	9.6	24.0%	-2.1	1328.2	11.3%	115.0

TABLE 7-2: CONTINUED

3MTG = Change in 3-month Treasury Bill rate from prior year
 10YT = 10-year Treasury Bond Rate
 10YG = Change in 10-year Treasury Bond Rate from prior year
 3-10 = Difference between 3-month T-bill and 10-year T-bond
 DJIA = Dow Jones Industrial Average
 DJIG = Change in DJIA from prior year
 BFRT = Business failure rate

ANNUAL AVERAGE OVER MULTI-YEAR PERIODS

YEARS	3MTG	10YT	10YG	3-10	DJIA	DJIG	BFRT

1958-							
1965	0.0	4.0	-0.0	-0.9	691.6	-0.1	56.6
1960-							
1965	-0.0	4.1	0.0	-0.8	734.9	-0.1	57.5
1960-							
1963	0.0	4.0	0.0	-1.2	666.1	-0.0	59.6
1978-							
1985	-0.0	11.1	-0.0	-1.2	1008.8	-0.0	72.0
1980-							
1985	0.1	11.8	0.0	-1.5	1067.6	-0.1	87.4
1980-							
1983	0.1	12.3	-0.0	-1.1	974.8	-0.1	75.6

MULTI-YEAR AVERAGES COMPARED:

(1)	0.0	-7.1	0.0	0.3	-317.2	-0.0	-15.4
(2)	-0.1	-7.7	-0.0	0.7	-332.7	0.0	-29.9
(3)	-0.0	-8.3	0.0	-0.0	-308.7	0.0	-16.0

NOTES: FIGURES ABOVE REPRESENT DIFFERENCE BETWEEN ANNUAL AVERAGE FOR:

- (1) 1958-1965 & 1978-1985
- (2) 1960-1965 & 1980-1985
- (3) 1960-1963 & 1980-1983

Comparing the average unemployment rates over 1960-65 versus 1980-85, unemployment was significantly worse in every category. Total unemployment was 2.6 percentage points greater in the latter period than in the former and the difference had grown even more severe for the hard-core unemployed groups of blacks, teenagers and unskilled. Even skilled workers were experiencing greater average unemployment.

Economic growth had deteriorated as well. Again, comparing the 1980-85 period with the 1960-65 period, yearly GNP growth during the first part of Reagan's tenure averaged 2.2% per year as compared with 4.2% over the Kennedy-Johnson years. The change in the CPI had deteriorated significantly, from 1.3% yearly changes on average through 1960-65 versus 6.9% average changes in 1980-85. Productivity changes were much lower in the later period than the earlier one, auguring poorly for future price performance.

Monetary aggregates in the beginning of the decade were in great turmoil. Nominal interest rates rose significantly in the late 1970's because of significantly higher inflation, then spiked sharply in the early 1980's when the Fed instituted a crash program of floating interest rates. This brought real interest rates to sharply higher levels and contributed to the sharp recession which ensued at the beginning of the decade. Coming as it did in the midst of the Reagan tax cuts, these higher rates put further pressure on an already deteriorating deficit situation, since Federal borrowing costs were rising at the very

time that Federal borrowing needs were increasing.

Macroeconomic performance did improve as the 1980's progressed. Indeed, a long recovery ensued after the 1981-82 recession, bringing with it significantly moderated inflation. However, this improvement was attributed to Reagan policies by the general public, and these policies were an explicit repudiation of Keynesian demand management policies which had preceded them.

Like Kennedy's Council, the Reagan CEA believed that there was not some basic structural problem with the economy. As the Council put it:

The U.S. economy faces no insurmountable barriers to sustained growth. It confronts no permanently disabling tradeoffs between inflation or unemployment, between high interest rates and high taxes, or between recession and hyperinflation. We can revive the incentives to work and save. We can restore the willingness to invest in the private capital required to achieve a steadily rising standard of living. Most important we can regain our faith in the future ("America's New Beginning: A Program for Economic Recovery", issued by the White House, 2/18/81, reprinted in Tobin and Weidenbaum 1988, 292)."

How would these incentives, this faith in the future, be restored? Once again, government would play a key role. But whereas Kennedy felt government could fill a gap which existed in the macroeconomy, Reagan felt that government had created one:

The most important cause of our economic problems has been the government itself. The Federal Government, through tax, spending, regulatory, and monetary policies, has sacrificed long-term growth and price stability for ephemeral short-term goals. In particular, excessive government spending and overly accommodative monetary policy have combined to give us a climate of continuing inflation. That inflation itself has helped to sap our prospects for growth. In addition, the growing

weight of haphazard and inefficient regulation has weakened our productivity growth. High marginal tax rates on business and individuals discourage work, innovation, and the investment necessary to improve productivity and long-run growth ("America's New Beginning: A Program for Economic Recovery", issued by the White House, 2/18/81, reprinted in Tobin and Weidenbaum 1988, 294).

Since government is the cause of economic malaise, the solution is obvious. The program which the Council recommended was:

(1) a substantial reduction in the growth of Federal expenditures; (2) a significant reduction in Federal tax rates; (3) prudent relief of Federal regulatory burdens ("America's New Beginning: A Program for Economic Recovery", issued by the White House, 2/18/81, reprinted in Tobin and Weidenbaum 1988, 292);

The Council explicitly repudiated the role of economic stabilization which Kennedy had assigned to the state:

The Federal Government has greatly contributed to the persistence of high inflation. Overly stimulative fiscal and monetary policies, on average, have financed excessive spending and thus pushed prices upward. Since government accommodation is widely expected to continue, inflation has become embedded in the economy.

When inflationary outbursts occur, policymakers all too often have made a quick turn toward restraint. Such turnabouts, however, have been short-lived and their temporary nature has increasingly been anticipated by savers, investors and workers. Substantive declines in employment and growth inevitably call forth stimulative policies before inflation can be brought under control. Such 'stop-and-go' policies have only resulted in higher unemployment and lower real growth ("America's New Beginning: A Program for Economic Recovery", issued by the White House, 2/18/81, reprinted in Tobin and Weidenbaum 1988, 295).

No clearer a rejection of "fine-tuning" could be made. Far from doing good, government countercyclical policy created greater instability and uncertainty.

The Reagan state would not only get out of the business of smoothing over the business cycle, but would be smaller and

with priorities significantly different from the New Frontier. The CEA's mission was quite clear: "[A] central goal of the economic program is to reduce the rate at which government spending increases." The introductory statement to the Economic Report of the President stated:

The spending reduction plan will shift Federal budget priorities so that Federal resources are spent for purposes that are truly the responsibility of the national government. . . . [O]ur budget plans reflect the increased importance attached to national defense, maintain the Federal Government's support for the truly needy, and fulfill our responsibilities for interest payments on the national debt. The spending reductions will restrain Federal involvement in areas that are properly left to State and local governments or to the private sector ("America's New Beginning: A Program for Economic Recovery", issued by the White House, 2/18/81, reprinted in Tobin and Weidenbaum 1988, 299-301).

Carrying out this program of budget restraint will also halt and begin to reverse the tendency of government to take an ever-larger share of our economic resources. From a high of 23 percent of GNP in fiscal 1981, Federal outlays are now scheduled to decline to 21.8 percent in fiscal 1982 and reach approximately 19 percent beginning in 1984 ("America's New Beginning: A Program for Economic Recovery", issued by the White House, 2/18/81, reprinted in Tobin and Weidenbaum 1988, 301).

This was a significant counterrevolution though a modest one. The government would focus on more traditional priorities, mainly national defense, paying down the debt, "poor relief" and pensions. However, the state's absolute size would at least remain the same. Instead, the growth of government spending was to be reduced below economic growth. Further, once economic growth was restored, the state would play no role in distributing the excess; that would be left to the market and "trickle-down".

Conclusion

For Kennedy, macroeconomic conditions in general favored, or at least did not militate against a tax cut predicated upon stimulating demand. True, the timing was somewhat off for Kennedy. The President, who at first advocated a tax cut to cure recessionary conditions, found himself arguing for a tax cut as a preemptive measure against future recessions as economic conditions improved. Nonetheless, with the Depression a recent memory, a perception that Keynesian policies had rescued the country from that cyclical debacle, and an interpretation of recent economic events as a problem which could benefit from the New Economics, Kennedy's tax cut had a fighting chance.

On the other hand, a rearguard action such as Gramm-Rudman, itself a repudiation of activist fine-tuning, was equally attractive given the economic conditions of its time. The Phillips Curve tradeoff between unemployment and inflation, if one existed at all, was clearly growing less advantageous. Keynesian rhetoric, if not always its recommended policies, had been employed throughout the 1970's, a time of two oil price shocks, followed by deep recessions, and increasing instability in both prices and unemployment. Cynicism was growing about both Keynesian nostrums and economic policymaking in general. The time seemed right for a fiscal straitjacket.

In general, the facts about budgets and economic conditions during the first half of the 1960's and the first half of the 1980's are well known. On both counts, the room for maneuver

had grown tighter, and the belief in the efficacy of fiscal policy was less well founded as time progressed.

Clearly the Kennedy tax cut exacerbated the fiscal constraints that would come later by drastically lowering income tax rates on both corporations and individuals and thus lowering the long-run revenue-raising capacity of the Federal government. This lowering of tax rates was buffered by a strong expansion in the economy which kept taxable incomes and total tax revenues growing smartly over the 1960's.

With the onset of the 1970's, the dynamics began to change. Economic growth slowed and inflation quickened. These two phenomena had differing impacts on tax revenues. Slower growth lowered growth in taxable incomes, while inflation raised such growth. However, inflation and economic stagnation worked the same way on expenditures, raising unemployment and other countercyclical spending and also raising benefit and other means-tested programs. Combined with political pressure to cut taxes, especially during economic downturns, Federal deficits became perennial and growing over the 1970's.

By the time Reagan took office, deficits were larger, economic performance was not as good as in earlier times, and the fiscal choices necessary to either close the deficit or run the demand-side stimulus deemed necessary to pump up the economy (if one still subscribed to Keynesian theory) were much harder. Reagan's tax cuts greatly exacerbated the growth of the structural deficit, and largely overwhelmed the increased revenues which healthier

economic growth in the mid-1980's brought. In this context, Gramm-Rudman, while perhaps not a sensible choice, was certainly one of the easier ones.

CHAPTER 9: PULLING DIVERSE STRANDS TOGETHER

In his classic exposition on the economic structure of the antebellum Southern United States, The Political Economy of the Cotton South, Gavin Wright tried to answer the question of why the South developed a slave economy and why the region chose to go to war to protect it. The essence of his approach was to describe the constraints which Southern actors faced as opposed to Northern actors and, having described the constraints, identify the room for maneuver which these actors had left to them. As it turned out, the constraints were in many ways binding enough that the outcome of Civil War, if not a foregone conclusion, was a heavily favored one (G. Wright 1979).

One hesitates to compare one's own quite modest efforts with a classic exposition such as Wright's, but the point is that this work has followed much the same strategy, namely to describe in some detail the constraints which faced the framers of the Kennedy Tax Cut and Gramm-Rudman Act respectively, see what options these constraints left them, and ask why the options chosen were chosen above others. These constraints, in effect, make up the substance of the fiscal constitution which guides and helps form budgetary policy.

In the matter of legislation, the American system of government is designed to put up a maximum number of constraints to ensure that any measure which gets passed is well considered and fairly conservative. A proposal should be endorsed by the President, preferably at the beginning of the process, but certainly at

the end, where the President's signature is required unless overridden by two-thirds of the legislature. A majority of the House and Senate is required in any case, and to get this majority, a bill usually has to get through one or more committees of the respective houses, and approval by a conference committee designed to reconcile differing versions passed by the House and Senate.

Because of this rather formidable gauntlet for a bill to become a law, changes in law tend to move slowly and tend to respect and be modelled after precedents in either form or substance. Partly for this reason, many political scientists have written of "incrementalism" - the pattern of piecemeal change to existing policies - which seems to have dominated much of American economic and social policy during its history.

Both the Kennedy Tax Cut and Gramm-Rudman faced these same general constraints - of institutions, of ideas and of history - but the specifics of those constraints were somewhat different.

Kennedy's Congress was overwhelmingly Democratic, much smaller, less open, and more concentrated in its centers of power. By Reagan's time, Congress had grown dramatically in terms of staff size, openness of process (at least in terms of allowing the public to view its public proceedings), and more decentralized in its formal decision-making. There were more Committees and subcommittees, Committee Chairs had less absolute control over these subcommittees and over the membership of their committees, and leadership generally had less sway over individual Representatives and Senators than in the past.

At the same time, Kennedy and Reagan were both quite different Presidents, and their relationship to the 1964 Tax Cut and Gramm-Rudman were quite different. Kennedy was a Democrat, a moderate, an Easterner and of a wealthy background. His public persona was that of the intellectual and he chose an economic adviser, Walter Heller, who advanced educated and "scientific" policies to solve the problems of the economy. Moreover, Heller had fairly central control of a fairly disciplined executive branch economic policymaking apparatus. That apparatus, with the President's support, pushed for a large tax cut specifically designed to stimulate demand.

By contrast, Reagan was Republican, a conservative, a Midwesterner transplanted to California, from a lower middle-class background, and of self-made wealth. He was anything but the intellectual, more the common man. His early economic policies focused on the budget and his economic policymaking apparatus was eclectic if not outright disorganized. Unlike Reagan's earlier triumphs in tax and spending policy, Gramm-Rudman was passed without his direction and ultimately against his will.

Moreover, the economic times were quite different. Kennedy had inherited a fiscal system that produced some deficits but was basically run with a rough balance of inflows and outflows over the medium-term, particularly when expressed in full-employment terms. Tax rates were quite high and could only go down. The biggest expenditure program in the budget was defense spending and that was coming down from the Korean War and, without major

new entanglements, could and would decline some more. The major expansion of social spending and entitlement programs that would occur in the mid 1960's to early 1970's had not yet transpired. Conditions clearly made a tax cut possible.

By contrast, after the Kennedy tax cut, the short-term revenue yield of the Federal tax system, holding economic conditions constant, was lowered. That is, after adjusting for changes in macroeconomic performance which may have been caused by the tax cut, a given dollar of income was taxed at a lower rate and so yielded less tax revenue on that dollar. When economic conditions changed and policies shifted, deficits were more likely to result.

Both economic conditions and policies changed, and the result was that Reagan operated in an atmosphere of constant deficit spending, made much worse by his own tax cut program in 1981. At the same time, the room for easy political maneuver was much lessened. Defense spending had declined considerably as a portion of GNP and of the budget prior to Reagan's tenure. It was now climbing due to Reagan's own efforts, and clearly could not be cut back without a major repudiation of the President's own past policies. In any case, Reagan was against defense cuts. At the same time, while he favored reductions in domestic spending, the political coalitions behind entitlement programs in particular were almost insurmountable. And, unlike Kennedy, Reagan faced a need to raise taxes, rather than having room to lower them.

The perceptions of circumstances held by voters, politicians,

and economists had also changed fairly drastically between Kennedy and Reagan. Kennedy's day had witnessed the pinnacle of the "New Economics", and many of its leading proponents served in, or advised, the Kennedy administration. With the Great Depression a recent memory in the minds of a majority of American voters, and the principles of Keynesianism calling for government intervention to close the "output gap," the tax cut certainly could be justified on "scientific" grounds if need be. Twenty years before Gramm-Rudman, there was more of a stated faith in economic theory. Both sides of the tax cut argument often employed economic expertise and argumentation. There was a sense, at least on the part of liberals, that economic policy was scientific and that recessions could ultimately be cured like a disease.

Reagan's election, by contrast, was the product of a severe skepticism about government generally and a dissatisfaction with the increasingly poor performance of the economy. Inflation had reached a peacetime peak, and recessions seemed to be becoming more and more like Depressions. Government policy may not have caused much of this misery, but whether it had or not, people placed responsibility for it on the government nonetheless.

Thus, while Kennedy served as President when the greater part of the population had lived through the Great Depression, Reagan served as President when the most everybody had experienced the oil price shocks of 1973-74 and 1979. While Kennedy's frame of reference was the New Deal, Reagan's was the Crisis of Confidence (as Jimmy Carter's famous 1979 speech was referred to). The

clear and present danger in Kennedy's time was unemployment and most people believed that government could do something about unemployment.

In Reagan's time, stagflation was the problem, and not only was the course of Keynesian policy less clear in this case, the general public was ready to believe that government policy was the cause of such difficulties. Gramm-Rudman tied the government's hands and when politicians believe that the public believes that those hands can only do damage such an action can seem like good politics if not good policy.

The level of consensus in the economics profession during the 1960's should not be overstated. Even within the Keynesian camp there were those, like Tobin, who favored a tight-fiscal, loose-money policy and only reluctantly came around to supporting a tax cut. There were also anti-consumptionists like Galbraith, who called for more government spending instead of lower taxes. Business economists tended to remain in the traditional sound finance camp. And economists like James Buchanan and Milton Friedman were doing battle in the academic journals with those trumpeting the efficacy of fiscal policy and downplaying the burden of the public debt.

But this dissensus was to look like peace and harmony when compared to the state of economic discourse when Reagan came to office. The Keynesians, now New Keynesians, were on the defensive, and the conservatives were in the ascendant. But there was no one conservative orthodoxy. Traditional business conservatives

remained, but were outshone by supply-siders, by monetarists and by rational-expectationists.

Gramm-Rudman was a clear rejection of the whatever opportunistic faith in economic theory had existed among Congressional representatives. Economic arguments were largely, though not completely, ignored. Basic intuitions and "common sense" were more forceful appeals to most Congressional representatives. Gramm-Rudman was passed in an atmosphere of cynicism about the ability of government to do anything other than cause damage.

Clearly Kennedy and Reagan were very different sorts of politicians who held very different sorts of ideas and operated in very different institutional environments. But in many ways they were riding waves of history and while one wave moved the country a bit out to sea, the other brought it back to shore; in the interim, relatively little distance had been covered, at least in terms of fiscal activism.

The many continuities between 1964 and 1985 include the fact that no Congressman would admit to liking deficits - they were to be feared and condemned in general, though one would certainly justify or excuse them in specific instances. The converse to this was that sound finance, however this malleable term might be defined, was universally lauded. Another converse was that no Congressman openly disputed the analogy between personal finance and government finance, though their arguments for or against deficits might implicitly undermine such an analogy.

In addition the basic divide in both periods remained largely

between those who favored a small, less active state and those who favored a large, more active state, though of course there was much heterogeneity within both camps. The principles of democracy and individualism remained potent icons on both sides of the debate, each side trying to hijack these symbols for their own purposes.

And the fact is that, as Chapter 2 demonstrates, fiscal activism was never firmly rooted in the American fiscal constitution. Kennedy won the first real victory for functional finance using taxation as the policy instrument; its alternative, countercyclical expenditures, never caught on for any length of time, and within little more than a generation, even the use of taxation for demand-management was finally put to rest.

The trends for fiscal activism since passage of Gramm-Rudman seem especially clear: budget limits, irrespective of fiscal policy goals, are here to stay. The first Democratic President in twelve years has retained discretionary spending caps and deficit targets in his FY94 budget, and has in fact tightened them.

The confused reader at this point might say that, in fact, there has been a shift in American fiscal policy since World War II, and that the rise of persistent and large deficits proves it. Surely the fiscal constitution has changed to become less restrictive and Keynesianism has played a large role in this.

This argument is only half right and misses the point in this case. The half-right part is that deficits have become

consistent; however, functional finance per se has had only a modest role in leading to them.

The fact is that deficits are nothing new in American history. Repeated deficits were run during the late 19th century, again during World War I, by Hoover and Roosevelt during the Great Depression, during World War II, and then by Eisenhower. As Stein has noted, even Roosevelt was a fairly conservative Keynesian who knew little of Keynes, and who used government to stimulate the economy but did not like planned deficits as an economic tool in and of themselves. Roosevelt fell back partly on Hoover's precedent of a deficit, and Kennedy used Eisenhower's deficits as cover for his own.

Kennedy did justify his planned deficits on Keynesian precepts - in many ways he was the first to do so - and his predecessors through Carter followed in his footsteps. But Reagan, who ran the first truly monstrous deficits and set the pattern for the 1980's and 1990's, explicitly rejected Keynesian tenets, and they have not been revived. The fact is that, whatever their cause or intent, deficits beget deficits because it is easier to run them than to raise taxes or cut spending, and as long as a predecessor's deficits were bigger, one cannot be blamed for fiscal irresponsibility, which had proven to be a political paper tiger in any case.

Which leads to the part of the argument that misses the point: while continual deficits are a seemingly permanent part of the fiscal landscape, countercyclical policy is not. It did

admittedly enjoy a heyday of sorts, but that heyday seems to be over. The two elements have become disconnected from one another, and their connection was never that strong to begin with.

APPENDIX A: LIST OF SELECTED SIGNATORIES AND/OR ACADEMIC AFFILIATIONS
OF SIGNATORIES TO LETTER FROM ECONOMISTS TO CONGRESS SUPPORTING
THE KENNEDY TAX CUT

Amherst College
Bowdoin College
Brandeis University
Brookings Institution: Edward F. Denison, Gary Fromm, Bert G. Hickman, Joseph A. Pechman, Alice M. Rivlin, Walter S. Salant
U.C. Berkeley: Joseph S. Bain, George T. Break, R.A. Gordon, Julius Margolis, Hyman P. Minsky, Andreas G. Papandreou, Ray Radner, Bernard Saffran, Tibor Scitovsky
U.C. Davis
U.C. Santa Barbara: William J. Kennedy, Walter J. Mead
U.C.L.A.: C.J. Huizinga
Carnegie Institute of Technology
U. Chicago: Harry G. Johnson, Dale W. Jorgenson, Arnold Harberger, Marshall D. Ketchum, Lloyd A. Metzler, Albert Rees, T.W. Schultz
Columbia University: Arthur Burns, Albert O. Hirschman, Robert Lekachman
U. Connecticut
Cornell University: Douglas F. Dowd, George H. Hildebrand, Alfred E. Kahn, Chandler Morse, George J. Staller
Dartmouth College: Martin L. Lindahl
Duke University
Harvard University: Abram Bergson, Richard E. Caves, Robert Dorfman, John T. Dunlop, James Duesenberry, Otto Eckstein, Alexander Gerschenkron, Richard O. Mallon, T. Schelling, Wolfgang F. Stolper
U. Illinois
U. Indiana
U. of Iowa
Johns Hopkins U.: James F. Kindahl, Kelvin J. Lancaster, Edwin S. Mills, R.T. Sparrow
U. Maryland: Dudley Dillard, Lyle E. Gramley, Philip C. Packard, Paul Wonnacott
MIT: Albert Ando, Francis Bator, E. Cary Brown, Paul H. Cootner, Edwin Kuh, Louis Lefebvre, Paul A. Samuelson, Robert M. Solow, Charles P. Kindleberger
Michigan State U.: Abba Lerner
U. Minnesota: A.O. Krueger
NYU: Lawrence S. Ritter
UNC
UPenn
Pennstate
U Pittsburgh
Princeton: William Baumol, Arthur Benavie, William G. Bowen, R.A. Musgrave, Richard E. Quandt John Williamson, Burton A. Weisbrod
Rice University
U. Rochester: Rudolph G. Penner
Southern Methodist University
Stanford U.: Kenneth Arrow, Paul David, Emile Despres, John G.

Gurley, Paul Hartman, Theodore J. Kreps, Ronald McKinnon
Tufts U.
U. Utah
Vanderbilt U.: John A. Brittain, Reynold E. Carlson, Jeffrey
G. Williamson
UVA: James R. Schlesinger
U. Washington: J.A. Crutchfield
Wesleyan U.: Stanley Lebergott
Williams College
U. Wisconsin: Arthur S. Goldberger, Guy H. Orcutt, Robert Ozanne
Yale: Stanley Engerman, Joseph Grunewald, Peter Mieszkowski,
Arthur M. Oken (OKUN?), James Tobin.

(Source: U.S. Congress, Senate Finance Committee, 1963, 869-871)

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