

COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

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Memo to: Board and Members
From: Carol Cox Wait
Date: April 10, 2001

SUBJECT: BUDGET DETAILS

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The Senate passed a budget resolution last week. On Monday the White House released details of the President's 2001 Budget. Congressional Republicans get high marks (or opprobrium depending on your perspective) for expedited passage of resolutions that mirror most of the President's policies. The debate was less contentious than in 1993, at the beginning of President Clinton's first term of office, when Democrats controlled both Houses of Congress.

The House voted along party lines. Fifteen Democrats voted for the amended version of the Senate resolution. The Senate budget authorizes two reconciliation bills to be reported by May 18 and September 14. This is crucial because either or both may be a vehicle for tax cuts and prescription drug legislation, reconciliation bills are virtually filibuster-proof and only limited amendments may be offered from the floor. We anticipate the first reconciliation bill to include accelerated tax cuts and across-the-board rate reductions.

The Senate version of the resolution reduced the tax cut to \$1.3 trillion compared to the President's proposed \$1.6 and accelerated relief in 2001 and 2002. The Senate voted to increase discretionary spending about 8% year over year, compared to the President's proposed 4%. The largest increases were for defense, education and health care. The House-passed resolution is substantially similar to the President's Budget. The two will go to conference. They probably will split the difference—something more than \$1.3 trillion in tax cuts and new discretionary spending caps somewhere in the range of 5%-6% growth.

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If the devil is in the details there are few surprises lurking there with him. The President's Budget documents read like a checklist of campaign promises. The exception is defense, where proposed increases are less than campaign rhetoric led us to expect. But Congress will add money for defense. And once DOD completes the review ordered by the President, the Administration undoubtedly will up the ante. The President's short-term challenge is to dissuade Congress from giving him much more than he wants for his own high priorities including defense, education and health research.

Carol Cox Wait
President

Agriculture could prove to be the Achilles heel in all this. The "Blue Dog" Budget in the House would spend nearly twice as much as the President proposes for Agriculture. "Blue Dogs" are moderate to conservative Democrats whom the Administration must woo to build bipartisan support for policies from tax cuts to education reform. The Senate is structured to be sympathetic to rural interests. They probably will be happy to increase farm spending. Farm spending was the largest item in so-called "emergency" bills in recent years.

The 1996 Farm bill, effective through 2002, shifted support for feed grain producers toward a market-driven system. It provided fixed but declining payments to farmers traded much smaller price supports in return for latitude to decide what to grow and when. The Farmers got the freedom, but as the table below illustrates, the policy did not save taxpayers money.

	Fiscal Years--\$ in Billions								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Agricultural Price Supports	16.1	10.7	5.8	5.0	5.0	7.9	18.5	32.0	20.4

The President's budget argues that climate and market conditions are improving. It contains \$15.8 billion in new budget authority for agriculture. The comparable number in the "Blue Dog" budget is \$29.5 billion. The biggest danger here is that the budget will understate agriculture costs only to see them come back as so-called "emergency" spending.

The other area of large exposure is prescription drug coverage for the elderly. The debate here is threefold. Whom to cover (all elderly or only those without coverage who cannot afford it). How to provide coverage in the near-term (by expanding Medicare or through grants to States). And whether to insist that new benefits and coverages should be part of overall Medicare reform. Medicare is the several thousand pound gorilla of budget challenges for the future. The prescription drug debate could be a catalyst for reform or it could make an already unsustainable program more expensive and thus make long-term problems even worse than they otherwise would be.

Status Quo Ante

It seems strange that the public policy debate at the beginning of a new century should be so dominated by the status quo ante. On the spending side of the budget, we continue to talk about rates of increase. The focus is on holding existing program levels constant rather than priorities for the future and the amounts needed to meet new needs. On the other side of the budget, rising incomes and tax collections from people in higher-income brackets drive huge surplus projections. The debate here is not really how big the tax cut should be. The real issue is, should those who pay the largest share of taxes keep proportionally large amounts as a result of tax cuts? The alternative is to redistribute the money through spending programs or by "targeting" tax changes to benefit lower-income groups and individuals.

Experts never tire of reciting the facts: Federal revenues are at an all time high since the end of World War II and spending nearly at its nadir as a percent of GDP. So what? Congresses and Presidents—Republicans and Democrats—cut taxes any time that total Federal receipts exceed 19% of GDP by very much or for very long. They are well on the path to do so again. Are Americans really resistant to Federal taxes much in excess of 19% of GDP? If that be the case, it is much more important to the challenges we will face when the baby boom generation retires than it is today.

Political leaders can make current voters happy with tax cuts in the here and now and still have money left over to reduce debt. But they will build a bigger hill for future politicians and future voters to climb unless they also scale back benefit promises to baby boomers once they retire.

What about government shrinking as a percent of GDP? Total Federal outlays fell below 19% of GDP in only one other time since the 1960's. In the 1960's defense spending was 6% of GDP higher than it is today. If we are able to hold defense spending at historically low levels, should the rest of government grow to take up the slack?

Should we return to the patterns of earlier times, when the Federal sector shrank and taxes went down relative to GDP in peacetime and only expanded again when the country was at war?

Entitlements for the elderly have accounted for all of the net growth in Federal spending since the 1960's. The chart at page 4 illustrates that fact and the extent to which continued growth, principally in Social Security, Medicare and Medicaid, could present a very serious challenge as the baby boom generation retires. (This table does not reflect GAO's latest long-term projections but an updated chart would make essentially the same case. The crisis appears a few years later in the new data.)

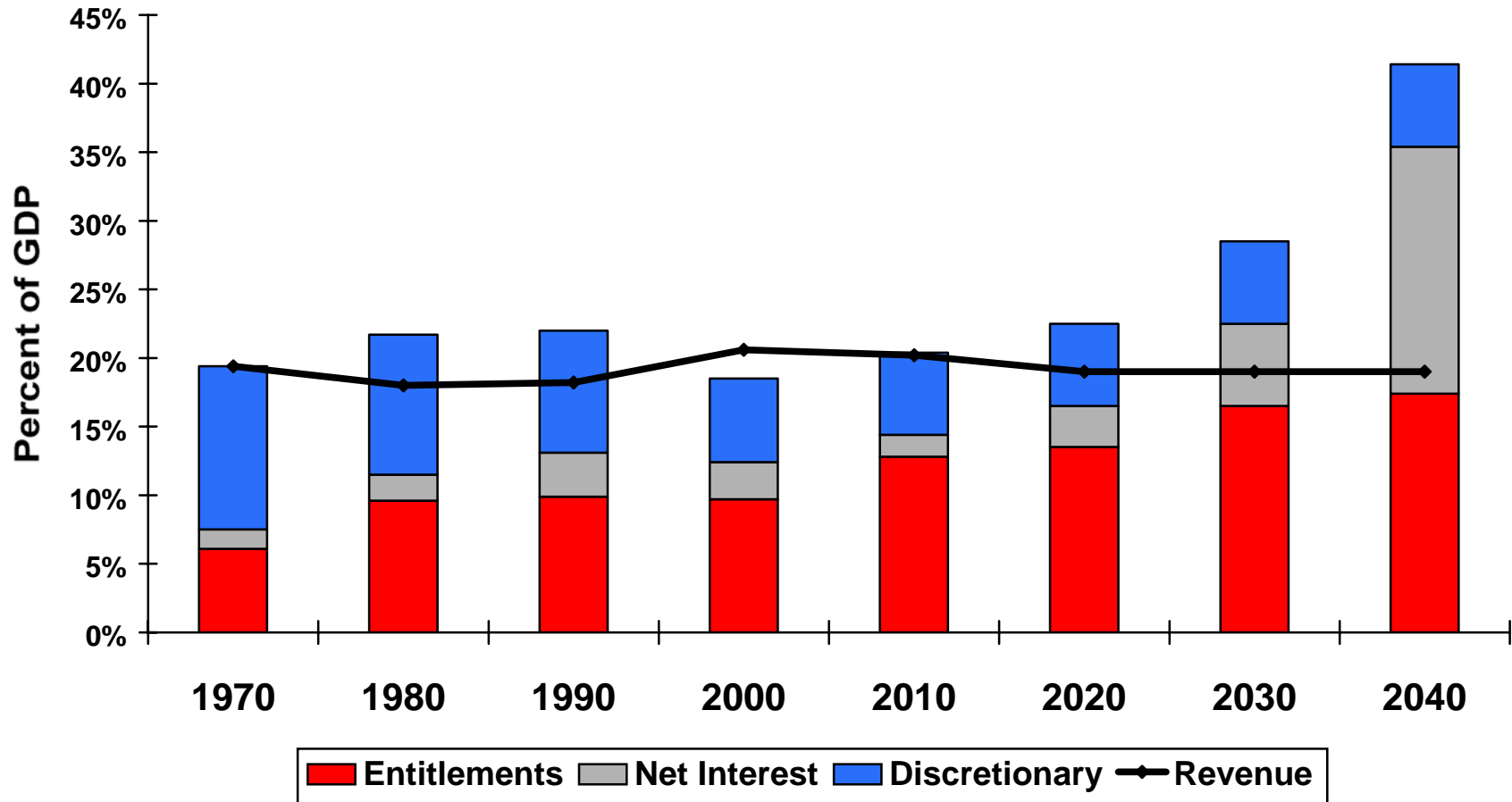
The President and Congress should seize the opportunity now, while demographics, a strong economy and budget surpluses can help to make the task more manageable to shape the Federal government to meet today's needs and tomorrow's challenges.

They should ask whether existing programs meet a high priority current need? Do they address issues and challenges we will face tomorrow? If not, the debate should focus on how to end old programs to make room for new initiatives—not about keeping program levels constant ad infinitum.

Similarly, the tax debate should focus on providing a stream of revenue sufficient to fund national public service needs for the foreseeable future. Cutting taxes today and raising them tomorrow is silly. On the other hand, we are convinced that Congress and the President will spend every dime of projected surpluses over and above the amounts earmarked for Social Security (and maybe Medicare) Trust Funds. And there is a strong case that government ought not to take more out of the economy than is needed to meet legitimate national priorities. (Given recent behavior, debt reduction certainly qualifies as a high priority—and we are not going to sit up nights worrying that Congress and the Administration will retire too much debt too fast.)

Unfortunately the debate so far is focused too much on the past and too little on the future. Even understanding the constraints on a new Administration and a closely divided Congress, we are very anxious to shift the focus to the future.

Expenditure Growth by Major Category—Fiscal Years—Percent of GDP



The Budget System and Concepts

Budget process reform long has been a priority for the Committee for a Responsible Federal Budget. It would be hard to overstate the pleasure, therefore, with which we review the new volume that has been added to budget documents this year.

It is called *Budget Systems and Concepts*. It restates many of the recommendations for reform that were included in our own report last year, addressed in the President's campaign and discussed in *A Blueprint for New Beginnings* in February.

Among the Administration's priorities for process reform—

- Make the Budget Resolution a Joint Resolution requiring the President's approval and having the force of law.
- A form of *Line Item Veto* that the Administration believes will pass constitutional muster.
- Automatic continuing resolution at the lower of the President's request or the previous year's level.
- Extend BEA Discretionary Spending Caps at appropriate levels and end practices designed to evade them.
- The Administration will work with Congress to set new PAYGO rules appropriate to the current surplus environment.
- The Administration proposes an approach that would eliminate the need for emergency supplemental appropriations except in "the most dire circumstances".

All of these are very high on our own list of priorities and we look forward to working with the Administration and Congress on the very important issue of process reform.