COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Board and Members
From: Carol Wait
Date: July 20, 2003

Subject: Budget Issue Update--This is Where I Came In

After twenty-two years as President, I am leaving the Committee for a Responsible Federal Budget and ask your indulgence. Let me share with you some personal thoughts as I leave.

The Committee opened its doors in temporary lodgings at Hogan and Hartson on July 21, 1981. Henry Bellmon, Bob Giaimo and the men (yes, they all were men) who founded the organization believed in the need for a group outside government committed to sound budget process--not to specific spending or tax initiatives or programs but rational, transparent, disciplined budget decision-making rules. We continue to think that sound budget process is central to sound democratic forms of government.

Almost immediately, the Committee was overwhelmed by the specter of historically large, seemingly endless, structural budget deficits. For a decade and a half, we worked hard to help the media, other interested groups, the general public and even public officials better understand what could be done--what real options actually existed--to reduce budget deficits. Throughout it all, however, we continued to focus on budget process.

I like to think that we enjoyed a degree of success. We cannot take credit for balancing the budget. The economy and the folks with election certificates on the wall get the credit for good and the blame for bad budget news. We did help improve public understanding about the budget, the budget process and the arcane language that surrounds both.

Congress enacted several laws mandating balanced budgets. Several times, they narrowly defeated balanced budget constitutional amendments. Eventually, Congress and President Bush wrote the Budget Enforcement Act (BEA) into the 1990 budget agreement. Nominal dollar discretionary spending limits and pay-as-you-go rules contained in that legislation helped shape debates that eventually produced the Balanced Budget Act in 1997 and an actual balanced budget (four years ahead of schedule) in 1998.

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The BEA did not balance the budget. Process can neither compel budget balance nor create deficits. Given political will to balance the budget, the process provided a framework within which it was more rewarding to do good than bad. It is very unfortunate, to say the least, that the budget enforcement rules expired just as huge unanticipated surpluses emerged. In the absence of agreed rules and goals ad hoc decision making took over and that made it easier to increase spending and cut taxes with little regard for bottom line impacts.

Budget balance proved to be a fragile hothouse flower. Huge surpluses evaporated just as quickly as they emerged. The recession, the war against terrorism, the shooting wars in Afghanistan and Iraq all contributed to their demise. The Administration's Mid-Session Review, released this week, shows deficits approaching half a trillion dollars per year. The deficit remains north of $200 billion even after wartime spending declines and after several years of healthy economic growth. Here we are, twenty-two years later and it is dèjá vu all over again.

Where did the surpluses go? In January 1998, the Congressional Budget Office first projected budget surpluses. Congresses and Presidents went on a real spree, increasing spending and cutting taxes with abandon. CBO projections since that time show--

- Outlay increases due to changes in legislation - $1,498 billion;
- Revenue reductions due to changes in legislation - $1,264 billion; and
- Debt Service Increases due to legislative change - $1,388 billion.

These numbers are totals for all years included in all CBO Economic and Budget Updates for the entire period. They exclude economic and technical changes. The economics and technicals should balance out over time. Legislative actions once again have produced structural budget deficits.

With interest rates and inflation at nearly historically low levels, the public doesn't care about big deficits. There is no political price to pay for spending increases and tax cuts. Indeed, opposition to specific benefits for specific constituencies could be politically dangerous.

Few economists argue that current deficits represent real danger to the nation's economy. Indeed, a structural deficit less than 2 percent of GDP would not cause serious concern in most circumstances. Changing demographics, however, could alter the fiscal policy calculus dramatically. When the baby boom generation begins to retire, deficits and public debt could rise so high as to threaten our fundamental economic well being. Our children and grandchildren could be forced to choose between reducing the support we receive in retirement, eliminating whole functions from the Federal budget, paying much higher taxes, or running ruinous deficits.

I hope that my successors at the Committee for a Responsible Federal Budget will continue to urge our elected leaders to act sooner rather than later to address the medium- to long-term challenges facing the country. I hope that they will be around to remind folks what worked and what did not the last time around. And I hope that our electronic *Exercise in Hard Choices*^{sm} project with the University of Akron will enable every Member of Congress, who wants to do so, to test their constituents' views about how to tackle the problem.

I hope to continue to be engaged as a member of the Committee Board of Directors. But as my children say, I have been there and done that and it is time for me to go.