COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Memo to: Members of the Board
From: Carol Wait
Date: May 15, 2002

SUBJECT: DID SOMEBODY TURN THE BUDGET RULES UPSIDE DOWN, INSIDE OUT & BACKWARDS?

It may have started with transportation. Former House Public Works Committee Chairman Bud Shuster sold Congress on the proposition that transportation spending should increase to consume all the money collected in motor fuels and aviation tax receipts. Never mind saving something for a rainy day. Don't ask whether there are enough high priority projects to justify those spending levels. Offer Members billions for projects in their Districts if they support the legislation—and threaten to cut them off if they oppose you. Transportation outlays were tied explicitly to dedicated tax receipts, so spending was supposed to go down when dedicated tax collections fell off due to the recession. But Congress seems certain to override that provision of the bill. Spending will continue to rise and Treasury will borrow to cover the cost.

If not transportation, something else would have launched this new and unedifying era if Federal budgeting.

How do you pass a tax bill when opponents say it is too large? Add rebates, phase in some provisions, phase out others and sunset the entire bill *and* package the whole thing in a budget resolution with reserve funds for a farm bill, health insurance for the uninsured, Medicare prescription drugs and home health prescription drugs, student loans and welfare reform.

How to pass education reform? Increase funding more than 30%.

How to pass a Farm bill? *Increase* loan rates for corn and wheat (grown in the Midwest) *and* for cotton and rice (grown in the South). *Expand* the dairy compact to include the entire country, increase funding for conservation and nutrition programs, *and add* a few new crops to receive Federal subsidies (my favorite is chickpeas). *Add* all sorts or "incentives for rural development" including subsidies for rural broadband access. In other words, include enough goodies for enough Members and areas of the country to garner the votes needed to pass the bill.

220 ½ E Street, N.E.*Washington, DC 20002*Tel. (202) 547-4484*Fax (202) 547-4476*CRFB @ aol.com

The railroad retirement bailout was even easier. Unions and management loved the bill. Railroad retirees live in a huge majority of Congressional Districts across the country. So what if the bill defied logic, common sense and budget rules? It was the popular thing to do and the real costs will fall on future taxpayers not on those who will vote in the next election.

The energy bill, the trade bill, all too much legislation in this Congress has one thing in common: enough tax subsidies and/or spending to satisfy enough constituencies to garner the votes to get to final passage. Never mind that these subsidies may lack coherent policy context—may even tend to cancel out one another.

Under the Budget Enforcement Act (BEA), discretionary spending caps were supposed to limit the amounts available for annual appropriations. Pay-As-You-Go (PAYGO) was supposed to require offsets for tax cuts and/or direct spending increases—at least those that would cause or increase deficits. Sequestration was supposed to eliminate any overage, if appropriations exceeded the caps or PAYGO legislation did not balance out at the end of the year.

BEA was enacted in 1990, amended and extended in 1993 and 1997 as part of legislation intended to reduce the deficit and balance the budget. During debate on the 1997 Balanced Budget Act (goal: budget balance by 2002) revenue projections began to grow. As a result, the budget balanced in 1998 and surplus projections grew like topsy thereafter. Against the background of very large and ever-growing surpluses, caps seemed quaint and PAYGO was deemed to be downright irrelevant.

Every year for the last five years, appropriations exceeded the discretionary caps by amounts greater than the budgets of all but a very few, very large States. PAYGO had almost nothing to do with the provisions that trigger on and off popular provisions of last year's tax bill. Congress and the Administration negotiated a total revenue loss for the bill. The only things that limited the size of the bill were projected surpluses and political support. Even then there was not enough money to do everything everybody wanted to do. But decision-makers did not make hard choices and set priorities. Never mind that it was like squeezing a size sixteen woman into a size 12 dress. They included almost everything on almost everybody's shopping list in the bill—for some period during the first ten years and sunset the entire bill in 2011. That creates tremendous pressure to extend expiring provisions and make the whole tax cut permanent.

Most of the legislation described above passed before September 11. The recession and the war against terrorism wiped out any projected surpluses that might have remained after the spending and tax cut binges of the last five years. But the recession and the war against terrorism provide a lot of political cover for continued deficit spending. The budget rules seem to have turned on their head.

In place of the PAYGO discipline that required spending reductions or tax increases to offset increases in direct spending and/or tax cuts, *the new budget rules seem to require spending increases to balance tax cuts.*

The new rules seem to require that *if defense spending goes up, outlays for domestic priorities almost must rise.*

Despite wide agreement that Medicare as we know it is unsustainable—the single highest profile domestic initiative in Washington is an add-on to that program for prescription drugs.

The President promised to reform the military for the 21st century. Nearly everyone supports large defense increases in the aftermath of September 11 and that seems natural. But nobody seems prepared to ask hard questions about priorities. In fact, the first major battle over priorities has arisen because the Administration wants to terminate the Crusader artillery system. The opposition, of course, is based in districts where the weapon would be built.

This may seem particularly curmudgeonly. But budgeteers everywhere are deeply worried. It does not matter whether you support tax cuts or increased spending—for defense or for domestic initiatives. Most would agree that there should be some overall restraint—that over some reasonable period of time Federal spending and Federal outlays must achieve approximate equilibrium. That is why the norm of budget balance served the country so well for more than 200 years. Many of us are anxious to see that norm—and realistic rules to enforce it reasserted.

There has been some talk in Washington about budget process reform. There has been considerable discussion around the fact that discretionary spending caps and PAYGO rules expire this year—and what should replace them. But the Senate has not even passed a budget resolution and many despair that they ever will. How then can we expect Congress and the President to agree on new rules for budget enforcement?

Spending money and cutting taxes is much more fun than setting priorities and making hard choices. We think that most Americans share our belief that government must live with in its means. And the way to ensure that outcome is to adopt a budget and enforce the budget once adopted.

The budget process is like a police force. You may not think that the policeman on the corner is very effective. But the only way to find out for sure would be to send him away. Similarly, as weak as the budget process may seem sometimes, the only way to test its effectiveness would be to let it expire. We know no one who wants to live in a lawless society and we are not prepared for a world without budget rules. Thus we will continue to work toward adoption of a budget resolution and new enforcement rules to take the place of BEA. We only hope that we are not running up the down staircase.