The Heritage Foundation Backgrounder

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CONGRESS'S DIRTY DOZEN: BUDGET PROCESS HORROR STORIES

INTRODUCTION

Last year Congress placed a spending gun at Ronald Reagan's head by packaging the entire federal budget into a single one half trillion dollar year-end spending bill. The ultimatum to Reagan: sign the most expensive piece of legislation in world history or shut down the United States government. This budget blackmail tactic properly triggered outrage from the White House, the press, and the American people. Asked a *New York Times* editorial: "Do the members of Congress care if they are starting to look like frauds, or fools?"[1] Ignoring public anger, Congress refused to budge. After a few minor concessions to the White House, Capitol Hill got its way and the mammoth bill was signed.

Savoring its victory, Congress now is planning a repeat performance. Impossible though it may seem, the FY 1988 budget package is shaping up to be even bulkier and costlier than last year's. Congress is once again planning to tie together in one take-it-or-leave-it bill 13 individual appropriations bills, which themselves are gargantuan. And to add insult, Congress this year may also add to the package a contentious eighteen-month debt ceiling extension bill and a $20 billion tax hike proposal. There is even talk of tacking on the $5 billion welfare reform measure now before Congress.

The day may not be far off when Congress will bundle together an entire year's legislative business into one omnibus "bill" that the President would effectively have to sign at political gun point--making a mockery of the President's role in the legislative process.

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1. "Fraud and Fantasy in Congress," *The New York Times*, September 26, 1986, p. A34.

This is but a single example of chronic budget process breakdown. It is not the only one. Among other recent budget ploys by Congress:

◆◆ Claiming $3 billion savings last September in the FY 1987 budget simply by voting to delay military paychecks for the last week of the fiscal year. This scam merely pushes the tab into FY 1988 and does not save the American taxpayer a nickel.

◆◆ Cramming into the FY 1986 catch-all budget bill such last-minute stowaways as a $200,000 payment to Frederick, Maryland, to reimburse ransom paid to the Confederate Army by the town during the Civil War, a $1 million study on killer bees, and a "demonstration grant" to build a tour boat facility in a South Carolina resort area.

◆◆ Falling so far behind its own budget timetable that Congress failed to enact a final FY 1986 budget until a quarter of the fiscal year had already elapsed.

◆◆ "Erasing" $700 million from the FY 1987 deficit by pushing General Revenue Sharing payments forward one month so that the spending would occur at the end of FY 1986 rather than in FY 1987. By that time the FY 1986 deficit was yesterday's news, so last-minute additions to it received no attention. The accelerated spending actually cost taxpayers almost $4 million in higher interest payments on the additional debt.

Such budget tricks strengthen the case for stricter controls over the budget-making process. Even Congress is feeling the embarrassment. This summer, for instance, the Senate overwelmingly passed a package of budget process reforms that would outlaw many of Congress's most blatant budgeting abuses. Much more reform is needed.

Bookkeeping deceptions and accounting gimmicks have become a convenient substitute for honest spending cuts. Until these ploys are banished from the budget process and Congress restores truthful and timely budgeting, record levels of red ink likely will continue to spill out of Washington. And the American public will continue to find horror stories embedded in the federal budget.

TWELVE BUDGET PROCESS HORROR STORIES

Congress's track record since passage of the 1974 Congressional Budget Act--heralded at the time as fundamental reform--has been a sorrowful picture of fiscal neglect. Federal spending has tripled from $330 billion to $1 trillion, federal deficits have almost quadrupled from $50 billion to $180 billion, and the national debt has swelled by nearly five-fold from $540 billion to $2.4 trillion. These runaway spending figures underscore the need for tighter budgetary controls. Yet even these aggregate budget numbers do not reveal how systematically and shamelessly Congress manipulates the budget rulemaking process to serve narrow political ends. The following twelve tales of fiscal fraud expose some of Congress's worst recent crimes against the taxpayer:

Horror Story #1: Congress Consistently Outspends the President.

Though such congressional leaders as Speaker of the House Jim Wright of Texas are fond of labeling the budget red ink of the 1980s "Reagan deficits," since 1981 Congress has spent over $140 billion more than the White House has requested. Congress has outspent the President every year since 1976 (see Table 1). Clearly, any budget proposing spending cuts, from a Republican or Democrat president, is "dead on arrival" when it reaches Capitol Hill.

Antidote: Empower the President with a line-item veto.

Since presidents have proved themselves substantially more responsible budget cutters than Congress, the Executive Branch should be given a line-item veto--a budget tool possessed by 43 governors--to pare down spending to affordable levels.[2]

Table 1
Federal Spending: Congress Versus the President

Year (President)	President's Budget Request ($ Billions)	Congressional Spending ($ Billions)	Difference
1976 (Ford)	349	372	23
1977	394	409	15
1978 (Carter)	440	459	19
1979	500	503	3
1980	532	591	59
1981	616	678	62
1982 (Reagan)	695	746	51
1983	757	809	52
1984	848	852	4
1985	925	946	21
1986	973	990	17

Average Congressional Spending over President's Request = $30 Billion

Horror Story #2: Why Congress's Budget "Cuts" Never Reduce the Deficit.

Why is it that Congress can enact "cuts" yet federal spending can rise by over $300 billion since Ronald Reagan entered office? The reason: Congress does not define a budget "cut" in the same manner as does a business or a household. Almost all Americans define a budget cut as a reduction from what was spent last year. But not Congress. In congressional parlance, a budget cut is any reduction

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2. John Palffy, "Line Item Veto: Trimming the Pork," Heritage Foundation *Backgrounder* No. 343, April 3, 1984.

from what lawmakers call "current services." A program's current services budget is the amount that would have to be spent on the program to maintain the same level of service as the year before.

The catch is that spending hikes, caused by inflation or even an increase in the number of eligible program recipients, automatically are built into the current services calculation. Hence, a program with a $100 million spending level this year easily may have a current services budget level of $150 million for next year if more Americans become eligible for the program. Thus if Congress votes to increase this year's $100 million outlay to $140 million next year, it is not treated by Congress as the $40 million hike that it really is. Instead, Congress actually records this as a $10 million budget "cut."

Antidote: Define budget cuts and increases on the basis of the previous year's spending.

The current services baseline misleads and confuses the public. It should be scrapped in favor of a spending freeze baseline.[3] This would establish the previous year's spending level as the baseline, as is customary in the private sector. A spending cut would then be any reduction from the preceding year's spending level. The Senate Budget Committee's ranking Republican, Pete Domenici of New Mexico, proposed such budgeting-freeze scorekeeping earlier this year. The President could adopt this procedure unilaterally in his budget request.

Horror Story #3: Lower Deficits through Economic Fantasy.

When the President released his FY 1988 budget this January, Congress spent the next three months denouncing the budget as a fraud. Senator J. Bennett Johnston, the Louisiana Democrat, chastised the White House for "using phony economic projections, such as an economic growth rate that is $15 billion too high."[4] On the House side, Budget Committee Chairman William Gray, the Pennsylvania Democrat, blasted the White House economic forecasts as "unrealistic" and "overly optimistic."[5] But when Congress had to construct its own budget, it unblinkingly embraced the White House forecasts--even after the Administration itself had disavowed them. Congress did so to produce projections allowing the deficit for its unambitious budget to slip below the Gramm-Rudman-Hollings deficit target. Congress originally had used the economic assumptions supplied by its own Congressional Budget Office. But these produced some $25 billion too much red ink. Rather than going back and cutting additional spending, Congress blithely ignored the CBO.

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3. For full details, see Daniel Mitchell, "Spending Freeze: A Hot Idea to Reduce the Deficit," Citizens for a Sound Economy, *Capital Comment*, December 30, 1986.

4. "President's Budget Called a Fraud," *The Washington Post*, April 3, 1987, p. A-7.

5. Quoted in Stephen Green, "Very Risky Fiscal Business," *The Washington Times*, April 28, 1987, p. D-1.

Antidote: Allow only one set of economic assumptions.

Honest budget scorekeeping requires honest and consistent assumptions. Congress should use just one set of updated economic forecasts, provided by the Congressional Budget Office. The bipartisan package of budget reforms that passed the Senate this year included this sensible provision.

Horror Story #4: Congress Runs through Its Own Red Lights.

The 1974 Budget Act imposes several budgetmaking rules designed to force strict spending discipline on Congress. For instance, appropriations bills exceeding the Budget Resolution spending allocations are prohibited from floor consideration. Yet these budget decrees are waived so routinely--almost 500 times in ten years in the House alone--that they no longer constitute even a minor nuisance to the big spenders on Capitol Hill.[6]

One of the most flagrant abuses of the budget process rules takes place in the Senate. The Gramm-Rudman-Hollings deficit reduction law requires that all new spending proposals must be deficit neutral. This means that they must either raise the revenue to pay for the added spending or they must specify spending cuts of equal magnitude elsewhere in the budget. If a bill violates the deficit neutrality principle, any Senator may block the bill by raising a point of order, which can be overturned only by a three-fifths vote. Lawmakers soon discovered a fail-safe method for evading what has come to be known as the "60-vote rule." They simply request a judgment from the parliamentarian, who advises the Senate presiding officer on procedural issues, as to whether a bill is in violation of the rule. It only takes a majority vote to overrule this decision. Hence Senators in practice only need 51 votes rather than 60 to pass legislation that will increase the deficit--a triumph for the big spenders and a taxpayer defeat.

Antidote: Restore enforcement of the 60-vote rule.

The Senate should close the loophole that has crippled the 60-vote rule by requiring a three-fifths majority to overturn the ruling of the chair on budget process issues. In addition, the House should establish a three-fifths rule of its own to discourage the introduction of deficit-boosting spending legislation.

Horror Story #5: Loan Guarantees--$160 Billion of "Free" Federal Subsidies.

Last year Congress congratulated itself for crafting a budget containing $15 billion in deficit reduction. Although the deficit did seem to shrink by $15 billion, Congress quietly issued an all-time record $160 billion in subsidized loan guarantees.

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6. Larry Haas, "If All Else Fails, Reform," *National Journal*, July 7, 1987, p. 1712.

Observed *The Washington Post*: "What the right hand taketh away in budget cuts, the left hand giveth in loans."[7]

Loan guarantees have become a popular form of backdoor spending on Capitol Hill. Under current federal credit accounting practices, loan guarantees do not require immediate outlays; thus they are treated as if they were free to the taxpayer. In fact, however, the guarantees place billions of dollars of future liabilities on the taxpayers' shoulders. Not surprisingly, annual federal loan guarantees have grown sixfold in less than 20 years.

Federal loan guarantees are a perfect budget cop-out for Congress: they provide immediate political benefits with no immediate costs. Future costs, however, can be substantial. Last year, for instance, Congress had to appropriate over $8 billion to pay off defaulted loans issued by prior Congresses. With today's total outstanding federal loan guarantees nearing the half trillion dollar mark, and with some federal loan programs, such as the Small Business Administration, facing default rates as high as 20 percent, trying to balance the budget with "lend today, pay tomorrow" practices invites ever larger budget deficit problems.

Antidote: Reform federally guaranteed loans.

Federal loan guarantees implicitly subsidize the borrower. Congress thus should require federal agencies to obtain annual appropriations to pay this subsidy cost of all loan guarantees issued. To calculate the loan guarantee subsidy, the agency should be required to purchase private reinsurance for its loans, which would reflect the risk associated with the guarantee. This would discourage Congress from guaranteeing loans when the likelihood of default is high. Such credit reform was one of the key items included in the Senate budget reform package.[8]

Horror Story #6: Using Subsidized Federal Mortgage Insurance to Reduce the Deficit.

Congress in 1986 "cut" the deficit by issuing billions of dollars of taxpayer-subsidized Federal Housing Administration (FHA) mortgage insurance. In exchange for guaranteeing these home mortgages, the FHA collected fees from the new homeowners. The $700 million in alleged deficit reduction was the amount of cash pocketed by the federal government in up-front mortgage insurance fees.

The problem is that these mortgage guarantees likely will drain the federal coffers of considerably more funds than were collected in fees. The reason: many of the homeowners who obtained cut-rate FHA insurance eventually will default. The mortgage companies will then come knocking on the federal Treasury's door for

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7. Judith Haverman, "Uncle Sam's Math: 2 + 2 = 5?" *The Washington Post*, April 19, 1987.

8. For more details, see John Buttarazzi, "Selling the Federal Loan Portfolio," in Stephen Moore and Stuart Butler, eds., *Privatization: A Strategy for Taming the Federal Budget* (Washington, D.C.: The Heritage Foundation, 1987), pp. 73-92.

payment, resulting in potentially huge taxpayer losses. In short, the billions of dollars of mortgage insurance is a time bomb waiting to explode in the taxpayer's lap.[9] Yet Congress deceived the public into thinking that this transaction reduced the deficit by $700 million. Under this perverse budget logic, if the federal government were to guarantee for a small fee every loan made by every commercial bank next year, it could completely erase the 1988 deficit.

Antidote: Prohibit fees for federal loan guarantees and insurance from being counted as deficit reduction.

Up-front fees collected by federal agencies for subsidized insurance and loan guarantees should not be scored as a revenue windfall. Rather, these payments should be offset against the cost to the federal government of obtaining reinsurance in the private sector, and the net cost added to the deficit.

Horror Story #7: Congress Disguises a $2 Billion Subsidy to Rural Voters.

The single largest deficit reduction item in this summer's FY 1988 budget package turns out to be a multibillion dollar giveaway to rural voters: the prepayment of some $7 billion of below-market federal loans made to rural electric and telephone cooperatives. This scheme will allow rural electric and telephone cooperatives to prepay $7 billion worth of outstanding federal loans. By prepaying these loan obligations--without penalty--the rural co-ops escape high interest rates as agreed to under the original conditions of the loans. The loans were originally made by the Rural Electrification Administration (REA) to encourage electricity and telephone link-ups in rural America.

Rural residents are understandably anxious to have these 35-year subsidized loans refinanced. Most of them were issued at a subsidy in the 1970s when interest rates were nearly double today's rates. The terms of these loan agreements, which the rural co-ops freely accepted, specify stiff prepayment penalties. But at the behest of Senators from rural America, Congress waived the prepayment penalty for billions of dollars of these REA loans.

There are several reasons why this prepayment plan is a bad deal for the taxpayer. For one thing, rural co-ops are not the only American enterprises or individuals now paying off loans at interest rates as high as 14 percent. To come up with the cash to make these loans in the first place, the federal government had to issue long-term debt at these high rates. Hence, if the rural co-ops are permitted to prepay without penalty, the Treasury will no longer collect interest payments on these loans at 1970s rates, even though federal taxpayers must continue to pay much of the 1970s debts at these double-digit interest rates. For another thing, even with the high interest rates the rural co-ops are now paying, the Office of Management and Budget estimates that REA loans have represented a $50 billion subsidy to rural America. They do not warrant an additional subsidy.

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9. Stephen Moore, "How Congress Can Defuse the FHA Time Bomb," Heritage Foundation *Backgrounder* No. 528, July 29, 1986.

Finally, the REA would continue to provide a 100 percent guarantee on the loans when they are refinanced in the private sector; thus the taxpayers' liability would not be lessened because of prepayment. All told, prepayment would cost the federal government approximately $2 billion, according to the General Accounting Office and the OMB.[10]

But for Congress this budget maneuver is an ideal political win-win game: members get to bestow an additional generous subsidy upon the powerful rural electrification lobby, while the prepayment will generate a one-year revenue windfall of about $7 billion, which Congress can claim as deficit reduction.

Antidote: Adopt credit reform for direct loans.

The REA incident illustrates how Congress can manipulate the size of the deficit by simply altering payment schedules on the $250 billion of outstanding loans it holds. The REA incident is simply one example of why all direct federal loans should be resold in the private secondary credit market the same year that the loans are originated. This not only would determine the true cost or the implicit subsidy of the loans, but also would depoliticize loan payback scheduling.[11]

Horror Story #8: Congress Ignores Budget Deadlines.

A primary objective of the 1974 Budget Act was to enable Congress to finish its budget business well before the start of the fiscal year. The Act created a strict budget timetable to remove the need for eleventh-hour spending bills. Since 1974, however, Congress has an almost perfect track record: only once in the past 12 years has it met its self-imposed timetable. Table 2 shows the number of days Congress has been tardy in passing its Budget Resolution over the last eight years. Congress did not pass its FY 1985 budget blueprint, the first step of the entire budget process, until six days before the start of the fiscal year. Starting the budget cycle this late creates the very end-of-the-year legislative logjams that the Budget Act was supposed to eliminate. Because of this, Ronald Reagan has been confronted with a continuing resolution, which wraps all program appropriations together in one bill, every year he has been in office. Twice this budget tardiness forced the government to close down, because Congress had not appropriated program funds by the start of the fiscal year.

Antidote: Switch to biennial budgets.

Congress seems incapable of completing its budget business in twelve months. Moving to a two-year budgeting cycle may reduce the use of last minute continuing resolutions. This year the Senate passed a "sense of the Congress" provision to experiment with two-year budgets for selected agencies.

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10. Office of Management and Budget, "Supplemental Appropriations Act: Provision for Premium Free Prepayments of REA Guaranteed FFG Loans," 1987.

11. Buttarazzi, *op. cit.*

Table 2

The Failure of Congress to Honor Its Budget Timetable

Year	Days Late for Passage of Budget Resolution
1981	28
1982	6
1983	39
1984	39
1985	139
1986	72
1987	70
Average Days Late	56

Horror Story #9: The Case of the Missing $2.4 Billion Appropriation.

It is unlikely that very many, if any, legislators actually read the novel-length budget bills they send to the President each year. Last year's $576 billion continuing resolution was so voluminous that not a single congressman was aware that missing from the legislation it delivered to the President's desk were two of its 690 pages. This was no minor oversight: the omitted pages contained a $2.4 billion appropriation for renting and operating federal buildings across the country.

Antidote: Enact a line-item veto for continuing resolutions.

When year-end budget bills become so unwieldy that even Congress is oblivious to their contents, it is time to take action. Although Congress has been reluctant to give the President general line-item veto power, one method of penalizing Congress for loading the budget into one bill would be to give the President an item veto to be used on spending bills containing more than one appropriations bill.

Horror Story #10: Robbing the Defense Budget to Pay for Domestic Programs.

Although Congress labors for months on the Budget Resolution, this is mostly wasted effort. The reason: the appropriations committees, which do the actual spending, ignore and rearrange the spending priorities established in the Resolution. Their favorite ploy is to fatten the budgets of pet domestic programs by starving the defense budget. Between 1982 and 1986, for instance, $32 billion of funds that the Budget Resolution had earmarked for national defense were shifted to domestic programs by the appropriations committees. These shifts in budget priorities directly thwart the will of the whole Congress and render the Budget Resolution meaningless.

Antidote: Enforce the spending priorities of the Budget Resolution.

As long as Congress refuses to enforce its Budget Resolution, a handful of committee chairmen will wield dictatorial powers over spending priorities. Because appropriations bills are so complex and because House floor rules make it difficult to amend the committee bill, rank-and-file members have limited authority to reconstruct appropriation bills to make them more closely conform to the Budget Resolution. To stop the appropriations committees from ignoring Budget Resolution spending allocations, Congress should establish separate and enforceable spending ceilings for the defense and the nondefense portions of the budget. Any appropriations bill that violates either of these spending ceilings should be made subject to a point of order requiring a three-fifths vote to be overturned.

Horror Story #11: Congress Cuts the Defense Budget With the Old "Check Is in the Mail" Routine.

Last year Congress claimed $3 billion in FY 1987 deficit reduction through old-fashioned "creative accounting." It ordered the Pentagon to send out the last military paychecks of FY 1987 on the first day of FY 1988, rather than the last day of fiscal 1987 as scheduled. This gimmick, of course, will not save the taxpayer a penny. The same stunt is planned again for the FY 1988 budget--indeed, having pushed one paycheck into FY 1988, it now must push a FY 1988 into FY 1989 just to stay even.

Antidote: Prohibit Congress from shifting payments from one year to another.

The only purpose served by altering federal payment schedules is to mislead the public. The practice should be barred; the Senate already plans to do so.

Horror Story #12: Congress Strips the President of His Budget Powers.

By impounding funds, a President can refuse to spend money appropriated by Congress. Ever since Thomas Jefferson impounded $50,000 of federal funds earmarked by Congress for navy gunboats, presidents have made use of this budget tool to combat congressional spending excesses. More recently, Presidents Kennedy, Johnson, and Nixon cut annual federal spending by between 5 and 8 percent annually by exercising their impoundment authority.[12]

The 1974 Congressional Budget and Impoundment Control Act, however, stripped the President of his impoundment power. In its place, the President was given rescission authority. A rescission is a presidential request to cancel unnecessary spending that has already been appropriated by Congress. Under the Budget Act rules, Congress can ignore White House rescissions; if a rescission is

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12. For a summary of the presidential use of impoundment, see Virginia McMurtag, "Impoundment of Federal Funds: A Brief Overview," Congressional Research Service, 1985.

not specifically approved by the legislature within 45 days, the funds in question must be spent. According to Office of Management and Budget figures, over the last three years Congress has ignored over 400 Reagan rescissions, blocking potential budget savings of over $18 billion.

Antidote: Give the President enhanced rescission authority.

Senator Dan Quayle, the Indiana Republican, has proposed legislation to require Congress to vote up or down on presidential rescission requests. If a majority in both chambers voted to approve the spending, the rescission would be revoked. But if either House voted down the spending, or if no vote were taken within 45 days, the rescission would be upheld. Such enhanced rescission power could force Congress to vote individually on parochial spending items the President opposes.

CONCLUSION

Peddling fictitious budget numbers has well served the interests of the big spenders in Congress. While lawmakers have been fattening the budgets of domestic programs by $150 billion in constant 1982 dollars since Jimmy Carter left office, they still have managed to convince Americans that spending has been cut to the bone. In doing so, Congress has been permitted to pull off accounting tricks that would send private businessmen to the penitentiary.

Senator Phil Gramm, the Texas Republican, notes that "procedure produces substance." The evidence supports this. By outlawing budget fantasy through enforceable procedural reforms, Congress would take an essential step toward proper control of the federal government's fiscal affairs. The Senate's lopsided vote in favor of budget process changes this summer is a sign that legislators are finally waking up to the harmful consequences of budget fraud and deception. This reform package is only a start. Ultimately, conquering the $180 billion deficit will require Congress to restore the President's proper leadership role in the budgetary process.

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