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Backgrounder UPDATE

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THE BUDGET SUMMIT AGREEMENT: PART VI NO REAL BUDGET PROCESS REFORM

(Updating *Backgrounder Update* No. 144, "The Budget Summit Agreement: Part V, Faulty Economic Assumptions," October 3, 1990; *Backgrounder Update* No. 143, "The Budget Summit Agreement: Part IV, The Myth of Entitlement Reform," October 3, 1990; *Backgrounder Update* No. 142, "The Budget Summit Agreement: Part III, No New Taxes Needed" October 3, 1990; *Backgrounder Update* No. 141, "The Budget Summit Agreement: Serious Damage to the Economy, Part II," October 2, 1990; *Backgrounder Update* No. 141, "The Budget Summit Agreement: Serious Damage to the Economy, Part I," October 1, 1990; and *Backgrounder* 787, "Rx for the Federal Deficit: The Four Percent Solution," September 4, 1990.)

When the Bush Administration and congressional leaders began budget negotiations five months ago, it was expected that any deficit reduction agreement would include long-overdue reforms of the budget process. Previous experience showed that without a tightening of the process, lawmakers soon would begin to evade spending controls, under pressure from interest groups. The Administration specifically declared that substantive reforms were a necessary condition for an agreement.

The summit agreement includes no serious reform. Not only are much-needed changes completely ignored, it appears that the marginal changes included in the package may actually weaken what little discipline currently exists.

The agreement was most notable for the absence of key budget process reforms needed to make spending control a reality. The package failed to include any of the following:

- **A Tax Limitation/Balanced Budget Amendment.** Even though a balanced budget amendment came within seven votes in July of the two-thirds needed in the House of Representatives, the negotiators did not include the amendment in the package. As a result, a package which is supposedly designed to eliminate the budget deficit does not include the one reform designed to guarantee that result.

- **A Line-Item Veto.** One of the major causes of deficit spending is the inclusion of wasteful and unnecessary spending in legislation which has broad appeal. The President then is faced with choice of vetoing the entire bill in order to express his opposition to pork barrel provisions or signing the legislation. A line-item veto, which would allow the President to veto individual spending provisions, would produce billions of dollars in savings. Not only did the summit negotiators reject the line-item veto, they also turned down much more modest proposals to give the President enhanced rescission powers.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

- **Eliminating the Current Services Budget.** In the real world outside Washington, American families and businesses understand that a spending cut means that spending next year will be less than it is this year. Washington lawmakers, however, have redefined a spending cut to be the difference between how fast they wanted to increase spending and how much they actually increase spending. If a store owner advertised a "10 percent off" sale because he only raised his prices by 15 percent instead of the 25 percent hike he would have preferred, he would accused of fraud. When legislators do the same thing, they are rewarded with support from the special interest groups who get the additional spending. Repeal of the current services budget, which would restore honesty to the budget process, was rejected by the negotiators.
- **Gramm-Rudman Outlay Targets.** Establishing specific federal spending targets, and requiring sequestration if spending increased above those targets, would ensure that promised fiscal restraint actually materialized. Such an approach, as included in the "Four Percent Solution" (S. 3136) legislation introduced in the Senate and with supporters in the House, was rejected by the negotiators.

POROUS SPENDING LIMITS

Supporters of the budget summit agreement would like to portray the "caps" on domestic, international, and defense appropriations spending as ironclad limits on total spending. In theory, the caps in these three categories are enforced by automatic budget cuts within each category whenever spending rises above the allowable level. This is in principle a step in the right direction. Unfortunately, the agreement contains many exceptions and limitations on this new procedure. Examples:

- Spending requests declared to deal with an "emergency" would not count against the spending caps.
- Excessive spending due to faulty economic assumptions does not count against the caps.
- If spending is higher than originally projected for "technical" reasons, it would not count against the spending caps at all in 1991. Such spending would count after 1991 only if technical reestimates boosted spending by more than $2.5 billion for domestic spending, $1.5 billion for foreign aid programs, and $2.5 billion for defense.
- The current Gramm-Rudman law is weakened by increasing the amount by which Congress can miss the target from $10 billion to $15 billion.
- A special budget summit is mandated for 1993 to "adjust" technical and economic estimates. Higher spending exposed by these changes would be exempt from spending caps.

THE AUTOMATIC TAX INCREASE PROVISION

In addition to undermining already existing limits on spending growth, the budget agreement creates an automatic tax increase mechanism. Under this provision, any measure which loses revenue according to the congressional Joint Tax Committee's static analysis would have to be accompanied by an offsetting tax increase. Failure to do so would result in automatic tax increase instructions to the House Ways and Means Committee and to the Senate Finance Committee. A number of points illustrate the folly of the approach:

- Had this provision been in effect in 1981, Ronald Reagan's Economic Recovery Tax Act could not have been enacted.
- This provision effectively kills any future consideration of a reduction in the capital gains tax.

- Reductions in the payroll tax would also effectively be prohibited by this provision.

Real budget process reform might have done something to salvage an otherwise deplorable budget agreement. At least it would have forced lawmakers to stick by their own agreement. But not only was real budget reform rejected – it appears that the changes agreed upon actually may make it even easier to circumvent controls on spending.

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