

UPDATE

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THE "NEW" BUDGET AGREEMENT PART II BACK TO CARTERNOMICS

(Updating *Executive Memorandum* No. 289, "The 'New' Budget Agreement: Part I, From Bad to Worse," October 9, 1990.)

Congressional committees are working feverishly to put meat on the bones of the budget resolution passed last Monday. If Congress sticks to its timetable, and George Bush signs into law on October 19 the budget package being drafted by congressional Democratic leaders, he may well be remembered as the President responsible for not just the largest first-year tax increase in American history, but also the nation's largest ever domestic spending increase. The spending proposals outlined in the budget resolution will increase overall federal spending on average by 6 percent per year, leaving domestic spending \$245 billion higher in fiscal 1995 than in fiscal 1990. This means that for every dollar in new taxes raised by this budget, federal spending will rise by \$1.90.

During the past six months of budget discussions, Bush and congressional negotiators have told Americans that deep and painful spending cuts would be needed to solve the deficit crisis. Yet, they added, spending cuts alone would not solve the problem; taxes too would have to be raised. Given such talk of deep cuts, Americans naturally would expect the fiscal 1991 spending levels agreed by summitters to be less than last year's levels. In fact, runaway spending will continue.

Hefty Non-Defense Increases. Only one spending area — defense — will receive less money in 1991 than it did in fiscal 1990: \$2.9 billion less in the first year and \$9 billion less by 1995. Every other program area in the \$1.3 trillion budget package will receive billions of dollars more in fiscal 1991 than in fiscal 1990. Not one bit of pork, waste, fraud, and unnecessary spending will be cut out of the budget. Instead, each non-defense program area will receive hefty increases next year. Moreover, this new spending comes on top of the \$73 billion, or 11 percent, hike in domestic spending between fiscal 1989 and fiscal 1990. Under this new budget package, for instance, energy programs receive 20 percent more funds in 1991 than in 1990; the Justice Department is given 17.1 percent more; agriculture grows by 12.8 percent; health programs rise 12.5 percent; and general government expenses, including funds for huge increases in congressional salaries, jump by 10.4 percent (See table on page 2.)

The budgetary technique allowing politicians to spend more while talking incessantly of cuts is called "current services" or "baseline" budgeting. Under this accounting device, introduced in the 1974 Budget Act, spending for each program is assumed to increase by the projected rate of inflation and the expansion of services authorized under current law. This automatic increase creates the new baseline for the program. Example: a program that costs \$100 million in one year might be

1991 Budget Proposed Spending Levels Compared to 1990 Levels

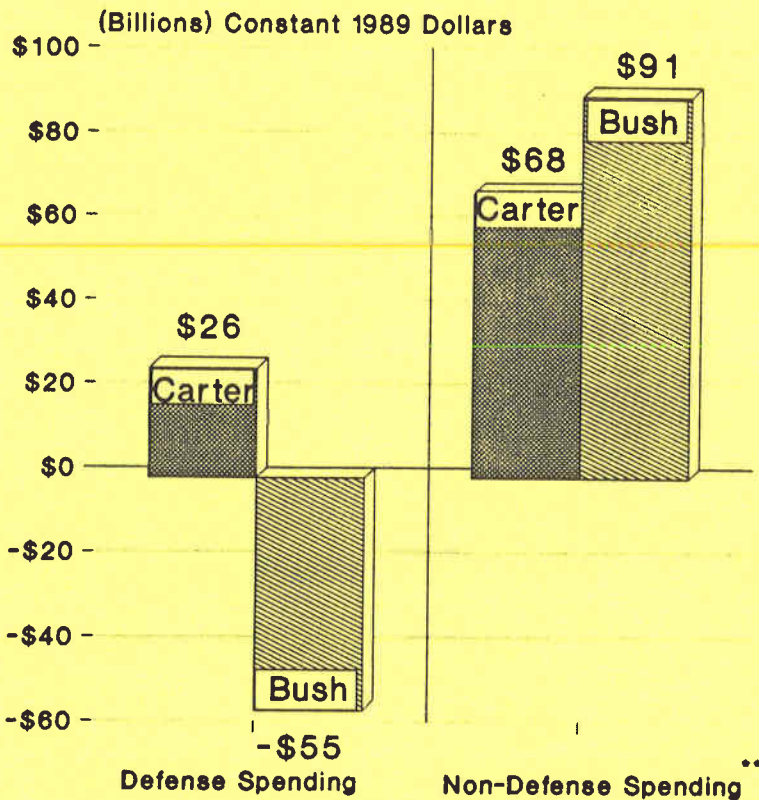
	Fiscal 1990	Fiscal 1991	Change 1990-1991 (billions)	
(050) National Defense	\$299.9	\$297.0	= \$2.9	-0.96%
(150) International Affairs	\$15.5	\$17.4	\$1.9	12.30%
(250) General Science, Space and Technology	\$14.2	\$15.2	\$1.0	7.00%
(270) Energy	\$3.3	\$4.0	\$0.7	21.20%
(300) Natural Resources and Environment	\$17.8	\$18.9	\$1.1	6.20%
(350) Agriculture	\$12.5	\$14.1	\$1.6	12.80%
(370) Commerce and Housing Credit	\$75.7	\$87.0	\$11.3	15.00%
(400) Transportation	\$29.5	\$30.7	\$1.2	4.10%
(450) Community and Regional Development	\$8.3	\$8.6	\$0.3	3.60%
(500) Education	\$38.3	\$41.8	\$3.5	9.10%
(550) Health	\$58.2	\$65.5	\$7.3	12.50%
(570) Medicare	\$96.9	\$104.9	\$8.0	8.30%
(600) Income Security	\$148.5	\$160.5	\$12.0	8.10%
(650) Social Security	\$248.7	\$266.3	\$17.6	7.10%
(700) Veterans Benefits and Services	\$29.4	\$31.7	\$2.3	7.80%
(750) Administration of Justice	\$10.5	\$12.3	\$1.8	17.10%
(800) General Government	\$10.6	\$11.7	\$1.1	10.40%

Note: Program areas are identified by their budget function numbers, which indicate the order in which programs appear in the President's budget.

projected by the baseline budgeting method to receive \$110 million the next year. If Congress appropriates \$105 million for the program, this is recorded as a \$5 million "cut." To any average American, of course, this would be a \$5 million increase.

By resorting to the "current services" charade and by cutting \$55 billion in real (inflation adjusted) dollars from defense, the liberal leadership in Congress can claim that the new budget package slows the growth of federal spending. In fact, non-defense domestic spending goes up by \$245 billion, or 34 percent, during the five-year life of this package — excluding net interest payments on the federal debt and the "off budget" cost of the savings and loan bailout. This increase in non-defense spending exceeds the total increase in non-defense spending during the entire 1980s. In other words, George Bush and the congressional leadership will increase domestic spending faster

Four Years of Carter vs. Four Years of Bush*



*Excluding interest payment and deposit insurance.

** Carter fiscal years 1978-1981.
 Bush fiscal years 1990-1993.
 (Bush years based upon the most recent budget agreement)

in the first five years of this decade than was achieved during the full ten years of the previous decade.

Outdoing Carter. Bush is well on the road to breaking the spending records set by Jimmy Carter. The spending levels established in the budget package will mean a real increase in domestic spending of at least \$91 billion. This is close on the heels of the \$94 billion real increase in total federal spending during the four years of the Carter Administration. If the Bush Administration fails to exceed the Carter Administration in its spending, it will only be because defense spending will decrease in real terms by over \$55 billion under Bush. Defense spending under Carter increased by \$26 billion in real terms.

Coupled with the huge tax increases scheduled in the budget resolution, and calls from the Administration for the Federal Reserve Board to ease monetary policy, the President thus seems set to bring back the economic disasters of escalating taxes, economic stagnation, and inflation that characterized the Carter Administration.

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