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Backgrounder

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THE CONGRESSIONAL BUDGET PROCESS: THE REAL CULPRIT IN WASHINGTON'S FISCAL CRISIS

(Updating Gordon S. Jones and John Marini, eds., *The Imperial Congress: Crisis in the Separation of Powers* [New York: Pharos Books, 1989].)

Washington's latest fiscal crisis is one in a series of budget nightmares that have plagued the capital for nearly two decades. They are the result of a Congress-dominated budget process that is out of control and in desperate need of wide-scale reform. As noted in the 1989 book *The Imperial Congress*:

> ... the current budget process has evolved into a procedure which promotes confrontation rather than negotiation between the executive and legislative branches. The Congress largely dominates budget decisions, leading to higher spending and larger deficits that in the period preceding the enactment of the Congressional Budget Act.[1]

The current federal budget process was established by the 1974 Congressional Budget and Impoundment Control Act. Passed by an assertive Congress in the wake of the Watergate scandal, the Act expanded congressional control over the budget process while limiting the President's ability to curb congressional spending and otherwise set national budget policy. As the sponsors of the Act explained at the time, its purpose was to "assure congressional budget control; provide for congressional determination of the appropriate level of federal revenues and expenditures...[and]...establish national budget priorities."

Everyone to Blame. Although the Act achieved its goal of increasing Congress's control over spending, it created an unwieldy budget process in which 535 Congressmen and Congresswomen each can secure funding for pet projects while avoiding responsibility for the resulting deficits. By curtailing the President's power to check congressional spending, the Act obliterated political accountability for the bottom line. Thus, while 535 politicians in Washington are empowered under the Budget Act to spend money, no one is responsible for cutting spending. The result has been spiraling federal deficits accompanied by higher taxes and partisan finger-pointing. The tragedy of the system is that because everyone is to blame, no one is to blame.

1 Gordon S. Jones and John Marini, eds., *The Imperial Congress: Crisis in the Separation of Powers* (New York: Pharos Books and The Heritage Foundation, 1989), p. 181.

Lack of Discipline. As a body of legislators, each representing separate and diverse constituencies, Congress inherently lacks the fiscal discipline needed to balance the budget. This was demonstrated during fiscal year 1976, the first year of budgeting under the new Act. Then Congress produced a budget with a deficit $22 billion higher than that proposed by President Gerald Ford. Since then, federal spending has increased at a pace double the rate of inflation, and federal revenues have nearly doubled. In inflation adjusted dollars, federal spending has grown by more than one-half trillion dollars in the fifteen years of budgeting under the Act, compared to an increase of $220 billion during the fifteen years of Great Society spending prior to passage of the Budget Act. Even during the Reagan years, when federal revenues grew by a record $474 billion, spending increased by $606 billion, including a 60 percent increase in domestic spending. And to feed its spending addiction, Congress since 1982 has passed fourteen separate tax increases.

Congress's lack of fiscal discipline also is demonstrated by its consistent failure to abide by the provisions of its own budget law. Lawmakers routinely have ignored the budget deadlines set forth in the Act. For thirteen of the sixteen years under the Act, Congress has failed to pass its First Budget Resolution on time, and for seven of the last eight years it has failed to complete its budget before the start of the new fiscal year. Instead, Congress stalls, avoiding spending cuts that may alienate constituents until a "budget crisis" ensues that will create a political environment more conducive to raising taxes. In recent years, such congressional inaction has resulted in the need for frequent emergency stop-gap spending measures passed in lieu of a budget. Often the President is faced with a choice of signing such emergency spending measures or shutting down the federal government. Since 1975, Congress has passed 46 emergency stop-gap spending bills, and in six of the last ten years the federal government has run out of funds.[2]

Ignoring Promises. When Congress does reach a budget agreement it routinely ignores its promises to cut spending. Perhaps the most troubling case of congressional budget chicanery occurred after the 1982 "budget summit agreement" between Congress and Ronald Reagan. In exchange for a record $98 billion tax increase, Congress pledged to cut $3 in spending for every $1 raised in new taxes. Instead, Congress spent an additional $200 billion. In fact, Congress has reneged on each of the five "budget summit agreements" reached between 1982 and 1989, failing to reduce spending to agreed-upon levels, even though tax increases were included in four of the agreements.[3] The failed 1990 budget agreement and the proposed alternative are no different. In each case Congress will receive higher revenues in exchange for future unspecified cuts to be determined by congressional committees. Yet as previous budget agreements have shown, these committees are incapable of cutting spending.

In recognition of its inability to enforce its own budget laws, Congress in 1985 passed the Gramm-Rudman-Hollings (GRH) Balanced Budget and Emergency Deficit Control Act. Its purpose was to ensure automatic across the board spending cuts if Congress failed to cut on its own. Yet as with the Budget Act itself, Congress simply ignores or modifies the GRH law to avoid spending cuts. One way it does this is by waiving the law's provision that spending increases must be accompanied by offsetting cuts elsewhere. Since 1985 Congress has voted sixteen times to waive the law, and thus increase spending freely. Congress also sidesteps the law by underestimating the deficit and thus, the

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2 *Congressional Quarterly Almanacs*, 1975 - 1989.

3 Paul G. Merski, "A Decade of Budget Summitry," Tax Foundation *Issue Brief*, June 1990.

level of spending cuts necessary to meet GRH deficit reduction targets. The result: Congress has failed to meet GRH deficit ceilings every year since the law was enacted, exceeding the deficit limits by an average of $25 billion per year.[4]

Congress's lack of budget discipline is fueled by a pro-spending bias that inevitably dominates the congressional budget process. Driven by special interest demands for increased funding and an overriding hunger for reelection, Congressmen simply cannot say "no" to more federal spending. Nowhere is this more clearly illustrated than in Congress's spending record so far this year. While Congress on one hand was negotiating with the White House over a deficit reduction package, on the other hand it was passing record spending increases. Appropriation bills passed by the House amid budget negotiations this year call for increasing federal spending by $59 billion next year, or 17 percent more than last year. Even the bipartisan 1990 budget agreement rejected by the House on October 4 called for increasing spending by $222 billion over five years.

Return to Discipline. No deficit solution is possible without reforms that return discipline to the federal budget process. And such discipline will exist only when it becomes possible to hold policy makers accountable to the bottom line: the deficit. Yet no Congressman alone can be held accountable for the deficit. Rather, Congressmen primarily are accountable to their own state or district interests, which generally demand a greater return of their federal tax dollars – or more spending. Only the President represents a national constituency and the national interest that primarily is served by saying "no" to more spending. Yet the 1974 Budget Act stripped from the President that power.

Prior to the 1974 Budget Act, Presidents had the authority to refuse to spend funds appropriated by Congress. Examples: Thomas Jefferson in 1801 refused to spend funds Congress had appropriated for gunboats. Franklin Roosevelt in 1941 refused to spend funds for flood control projects that Congress had included in the War Department appropriations bill. And Lyndon Johnson, the father of the Great Society, refused to spend large amounts of funds appropriated by Congress for domestic programs, including public housing and highway construction. In 1967 Johnson impounded $10.6 billion, or 6.7 percent of the federal budget.[5] Yet under the 1974 Budget Act, a President's decision to rescind appropriated funds has no effect unless Congress votes to accept the rescission. Since passage of the Act, Presidents have requested from Congress 894 spending rescissions, yet Congress has approved only 315. All told, Congress has rejected $37.4 billion in rescissions requested by Presidents since the Budget Act was passed.[6]

Line-Item Veto. One way to check congressional spending and restore accountability to the budget process is to grant to the President line-item veto authority that currently is enjoyed by governors in 43 states.*[7] This reform will restore to the budget process a practice available to every President from George Washington until 1974: the power to rescind particular items of congressional spending that the President deems incompatible with the national interest.

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4 Stephen Moore, "Congress vs. America: How Congress Raises Its Own Pay," Heritage Foundation *Backgrounder* No. 744, December 14, 1989.

5 Jones and Marini, *op. cit.,* pp. 155-156.

6 General Accounting Office report, March 6, 1989.

7 Daniel J. Mitchell, "Eleven Conditions for a Budget Summit," Heritage Foundation *Backgrounder* No. 779, July 23, 1990.

False Spending Cuts. Another necessary budget reform is eliminating Congress's "baseline" approach to federal budgeting. Under the 1974 Budget Act, a "current services" budget must be established. This budget projects to future years the level of increased spending necessary to continue existing government policies by factoring in such considerations as changing demographics, program growth in previous congressional budgets, and inflation. Once established, this baseline locks in higher federal spending and treats as budget "cuts" any reduction in the planned increases in spending. This is how Congress routinely can decry massive spending cuts that in fact are not actual reductions in federal spending, but reductions in the rate of increase of federal spending. It allows Congress to increase spending while claiming that spending is cut.

Congress and the press, for example, have claimed with much success that Ronald Reagan cut domestic spending to the bone. In fact, however, Reagan only reduced the rate of spending growth, as domestic spending increased every year of his administration for a total increase of $240 billion. So too is the case with the 1990 budget resolution currently moving through Congress. Although described as "painful" budget cuts, the deficit reduction plan, passed by the House October 16 and currently before the Senate, does not actually cut spending from previous year levels. Instead, it would increase domestic spending by $245 billion, which excludes costs of the Savings and Loan bailout and interest payments on the national debt.[8] If Congress did not use the deceiving "baseline" approach to budgeting, it could not count such spending hikes as spending cuts.

Real Reform Proposal. Representative Christopher Cox, the California Republican, has introduced a comprehensive package of budget reforms that would amend the 1974 Budget Act to inject discipline into the congressional budget process and empower the President to enforce federal spending limits. The Cox bill would require Congress to pass a binding budget law each year, rather than the current nonbinding budget resolution. The budget law would establish legal ceilings on spending rather than the unenforceable "targets" under the Budget Act. If Congress fails to pass a budget, the President may rescind any spending Congress passes that exceeds previous year levels. Once Congress passes its budget law, it cannot exceed the law's spending ceilings without two-thirds approval from each house and the President's agreement. Should Congress exceed the ceilings in an appropriations bill, the President may sign the bill and rescind any spending above the ceilings. And in a reversal of the current practice under the 1974 Budget Act, the President's rescissions would stand unless Congress voted to restore the funding, subject to a presidential veto. Finally, the Cox plan would eliminate the need for emergency spending bills by providing for automatic funding of government at previous year levels should Congress and the President fail to reach a budget agreement.

The 1990 budget debacle should persuade Congress and the President to scrap the 1974 Budget Act and adopt reforms that will distribute more evenly between the President and Congress responsibility and accountability for the federal budget. Immediately upon completion of this year's budget, George Bush should begin drafting a comprehensive reform plan to be submitted to the next Congress. The plan should include a line-item veto, an end to baseline budgeting, and elements of the Cox reform package. Bush should make budget reform his top domestic priority for the remainder of his term.

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8 Scott A. Hodge, "The 'New' Budget Agreement: Part II, Back to Carternomics," Heritage Foundation *Backgrounder Update* No. 147, October 12, 1990.