

The Executive Memorandum

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FEDERAL SPENDING LIMITS: A FIRST STEP TO RESTORE FISCAL SANITY

Supporters of last year's budget summit agreement promised the package would strengthen the economy and reduce the federal budget deficit. In reality, however, thanks to record spending and tax increases, the budget agreed to by the Bush Administration and Congress helped throw the economy into its first recession since 1982 and boosted the 1991 deficit to an all-time high of more than \$300 billion. Despite this evidence of a growing fiscal and economic crisis, neither the budget submitted by the White House nor the one proposed by House Budget Committee Chairman Leon Panetta, the California Democrat, attempts to undo the damage caused by last year's fiscal fiasco.

Breaking with the high tax and high spending status quo, Budget Committee member John Kasich, the Ohio Republican, has offered a budget alternative that would scale back modestly the growth of federal spending by limiting increases in annually appropriated domestic spending, or discretionary spending, during 1990-1996 to the rate of inflation. Compared to the Bush and Panetta budgets, both of which result in substantial increases in inflation-adjusted domestic discretionary spending over this period, the Kasich budget would save the economy nearly \$9 billion in 1992 and almost \$90 billion over the next five years.

Kasich's proposal will not solve all the problems caused by last year's budget agreement. It does not repeal, for example, the record tax increase imposed on the economy. Nor does it restore the enforcement provisions of the 1985 Gramm-Rudman-Hollings Deficit Reduction Act which were gutted as part of the infamous deal. Kasich's budget alternative does not even repeal a majority of the spending increases built into the law as a result of the budget agreement.

Boost to the Economy. The Kasich budget alternative, however, would save American taxpayers billions of dollars which otherwise would be squandered on wasteful and unnecessary domestic spending programs. Perhaps equally important, adoption of the Kasich budget would give a psychological boost to the economy by demonstrating to consumers, savers, and investors that lawmakers now understand that last year's retreat to "Carternomics" was a mistake.

Federal spending is out of control. In both nominal and inflation-adjusted dollars, the budget is at an all-time high. Thanks largely to last year's budget agreement, federal spending this year will consume more than 25 percent of America's gross national product (GNP), up sharply from 22.3 percent of GNP just two years ago. With the exception of World War II, the federal government has never controlled more of the nation's resources.

In 1991 alone, domestic discretionary spending is projected to jump by 9.1 percent and entitlement spending will increase by an estimated 12.5 percent. Total spending is expected to climb by \$158 billion, a single-year growth record. Even if the cost of the savings and loan deposit insurance bailout are excluded and the figures are adjusted for inflation, domestic spending is increasing more than ten times faster under George Bush than it grew under Ronald Reagan and nearly twice as fast as it grew under Jimmy Carter.

RUSH!

Average Annual Percentage Growth in Domestic Spending (constant 1982 dollars)		
Carter	Reagan	Bush
3.09	0.53	5.75

Source: Office of Management and Budget, *Budget of the United States Government, FY 1992, Historical Tables*.

Both the Administration's budget and the package proposed by Chairman Panetta fail to address the spending problem. Each proposal accepts last year's budget agreement and boosts spending by the maximum allowable level under the new budget rules. But since the spending limits exclude all entitlement programs and allow excessive increases in domestic discretionary spending, keeping within the limits is fiscal discipline only in the sense that 100 mph speed limits in school zones promote traffic safety.

While the Bush and Panetta budgets are most noteworthy for their similarities, the proposals contain very minor differences. The Administration's budget would boost spending for pork barrel projects like the Superconducting Supercollider and the National Aeronautics and Space Administration's behind schedule and over budget space station, while the Panetta budget would direct more money to the education bureaucracy and counterproductive welfare programs. From a taxpayer's perspective, however, this disagreement over how to spend every possible penny is meaningless. With the deficit exceeding \$300 billion for the first time in history, the debate should be over how to cut spending.

Some policy makers argue that the Kasich budget alternative would be a step in the wrong direction since it would undermine the five-year budget package agreed to last fall. Unless higher taxes, more spending, and larger deficits are now a goal of fiscal policy, however, there is no reason to support a deal which has wreaked so much havoc on the economy. America's economy is in a recession. More than one million Americans have lost their jobs over the past year. Given the current economic climate, there is little reason to expect a return to strong economic recovery any time soon. Indeed, blind support for the budget deal all but guarantees anemic economic performance since provisions of last year's budget deal automatically preclude pro-growth, tax-cutting legislation.

Road to Recovery. The Bush and Panetta budget proposals are bad news for American taxpayers. Both budgets mean more federal spending and a reaffirmation of the giant tax increase enacted last fall. The Kasich proposal, if enacted, would hold the increase in domestic discretionary spending to the rate of inflation, and thus be a first step on the road back to fiscal sanity.

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