The Heritage Foundation MEMO TO: President-Elect Clinton

No. 8

214 Massachusetts Avenue, N.E. Washington, D.C. 20002-4999 (202) 546-4400

January 15, 1993

HOW TO GET SPENDING UNDER CONTROL

No wonder all of us have had enough. Our Government doesn't work....We cannot put people first and create jobs and economic growth without a revolution in government. We must take away power from the entrenched bureaucracies and special interests that dominate Washington. . . . The answer for every problem cannot always be another program or more money. It is time to radically change the way government operates. . . .

My plan will cut the deficit in half within four years, and assure that the deficit continues to fall each year after that.

Bill Clinton, *Putting People First: A National Economic Strategy for America*

EXECUTIVE SUMMARY

First the bad news. Before you make a single decision on how "to radically change the way government operates," President-elect Clinton, you could become, through no fault of your own, one of the biggest spending Presidents in modern history. The reason: Federal government spending, especially domestic spending, exploded under George Bush. So you inherit a government fattened by four years of runaway spending. Worse still, budget decisions already taken during George Bush's tenure automatically could make you a bigger spender than Jimmy Carter. This means that if you fulfill your promise to boost domestic spending an additional $20 billion to $50 billion per year, you will at least assure your place in the record books.

Now for the good news. You can avoid this fate, while improving the health of the economy, by taking a series of bold and deliberate steps to rein in the spending binge begun under George Bush. And if you do act quickly and decisively, you can use the public's strong anti-Washington mood against the powerful Beltway interests. By most accounts the November elections were a referendum on ending business as usual in Washington. Americans were persuaded by your commitment to "bring a revolution in government." Now you can—and must—deliver that revolution in the budget process.

To be sure, most voters want you to take action on several domestic issues. Many others remain concerned that you will become a "tax and spend" President. Thus as you craft your domestic agenda, you need to keep in mind some sobering facts:

✦ **Total spending is at historic levels.** Total federal spending now consumes 23.6 percent of gross domestic product (GDP), the third highest level since 1946.

✦ **Domestic spending is at a ten-year high.** Domestic spending (excluding net interest payments on the debt and the savings and loan bailout costs) now consumes 14.6 percent of GDP. As a share of GDP, this level is 2.5 percentage points higher than when Ronald Reagan left office. Moreover, domestic spending is at its highest level since 1983—the end of the last recession — similar to the level during the economic malaise of the late 1970s.

✦ **The "peace dividend" has been spent.** George Bush spent the "peace dividend" more than twice over. Defense spending has declined a cumulative $165 billion below the inflation rate since Reagan left office, but domestic spending (again, excluding interest and S&L bailout costs) has soared a cumulative $441 billion above the rate of inflation.

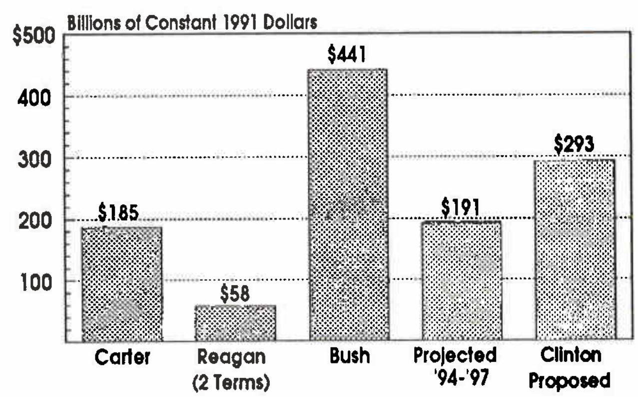
✦ **Agency budgets have risen by record amounts.** The budgets of nearly every domestic agency have experienced record growth in the past four years. For instance: The legislative branch, up 34 percent; the judiciary, up 88 percent; Agriculture, up 29 percent; Education, up some 43 percent; Energy, up 42 percent; Housing and Urban Development, up nearly 33 percent; and Transportation, up 30 percent.

✦ **Expected new tax revenues are already being spent.** According to the Office of Management and Budget (OMB), tax revenues are expected to grow naturally from today's level of roughly $1.2 trillion to nearly $1.5 trillion in fiscal 1997, an increase of about $300 billion. Unfortunately, the government is already spending $1.5 trillion per year, the level of tax revenues we should expect in five years.

In your campaign manifesto, *Putting People First*, you outlined an ambitious agenda for greater domestic spending in addition to deeper defense cuts. But if you follow through with this agenda, without serious spending reforms elsewhere, you will stand no chance of getting the federal budget under control. Just consider:

✓ Adding your projected domestic spending increases to the current trends in domestic spending means that domestic spending could grow by a cumulative $293 billion above the inflation rate during your first term. This is 1.6 times the spending increase during Jimmy Carter's one — and only—term as President.

Real Domestic Spending Increases: Bush's Past Spending Higher Than Clinton's Promises



Note: Data represent cumulative spending for each presidential term above inflation-adjusted spending of preceding President.

Source: Office of Management and Budget, *Mid-Session Review of the Budget*, July 24, 1992.

Heritage DataChart

- ✓ Combining your defense spending cuts with current trends in defense spending means that defense spending will fall a cumulative $148 billion below the inflation rate in the next four years. Comparing this reduction with the increase in domestic spending means that for every $1 dollar you cut from defense spending you will be adding $2 of new domestic spending.

The bottom line is that your spending increases will boost, not lower, the next four years' deficits by a total of nearly $60 billion. This trend is compounded by the fact that the budget picture has worsened since your plan was developed in mid-1992. The deficit projections for fiscal years 1994-1997 contained in the budgetary statement released by the Bush Administration last week are a total of nearly $200 billion above the projections made in the *Mid-Session Review of the Budget* released last July. Spending is now projected to be a total of $98 billion higher during your term than was projected last July, and revenue is expected to be a total of $91 billion below the earlier estimates.

Thus, the $237 billion fiscal 1997 budget deficit estimated in July, which you promised to cut in half, is now expected to reach $305 billion. Your spending program could boost the deficit to nearly $320 billion.

These new estimates indicate that to halve the deficit as you promised would then require a tax increase massive enough to generate over $160 billion in new revenues in fiscal 1997 alone. By comparison, George Bush's tax increase was $165 billion and spread out over five years. As Bush discovered, a tax increase of this magnitude not only would be political suicide, but would also have a dampening effect on the economy. A weakened economy, of course, produces fewer tax revenues and requires greater federal expenditures. Meaning: the deficit would soar even higher.

How Can You Avoid a Repeat of the Carter and Bush Years?

The only way you can do so is by budget reforms that turn the tide against the powerful coalition for increased spending. You are certainly outnumbered in this battle for control over the nation's purse. The current budget process strongly favors a Congress desperate to satisfy constituents and special interests who use their lobbying muscle to protect and expend their own programs. But there are short-term and long-term strategies you can take to shift the balance of budget power back to the executive branch.

To do this there are several key actions you must take within 100 days of assuming office:

Action 1: Use your executive authority to reinstate the Gramm-Rudman-Hollings deficit reduction targets.

The threat of an across-the-board sequester gives Congress a strong incentive to curb special interest spending. To meet the budget schedule, you will have to take this action within 24 hours of taking office. That dramatic decision will signal to Congress that you mean business.

Action 2: By executive order, suspend the 1931 Davis-Bacon Act.

This explicitly racist law adds billions of dollars to the costs of federal construction projects and destroys job opportunities for minority workers.

Action 3: Use the vote on raising the government's debt limit (expected in March) as a lever to force budget process reforms that will control spending.

The debt ceiling vote is an excellent opportunity to enact strict caps on future domestic spending growth and get from Congress such reforms as a constitutional line-item veto authority. The Gramm-Rudman-Hollings legislation was a direct result of a deal over the debt ceiling in 1985. Failing this, you should extract from Congress no less than the executive powers you enjoyed as Governor of Arkansas as your price for agreeing to an increase in the debt ceiling: statutory line-item veto authority; a statutory balanced budget requirement; and executive authority to reorganize departments and transfer funds without legislative approval.

Action 4: Create a presidential commission to examine options for cutting federal spending, modelled after the Base Closing Commission.

The budget is chock full of programs that are wasteful, redundant, outmoded, or unnecessary. Although hundreds of billions of dollars could be saved by eliminating or reforming these programs, Congress has so far refused to take such steps, fearing the wrath of the special interests. A Government Waste and Efficiency Commission, modelled after the Base Closing Commission, could break this gridlock if Congress were bound in advance to conduct—without amendment—an up-or-down vote on the Commission's recommendations.

Action 5: Send early, unequivocal signals of your opposition to wasteful spending and your eagerness to eliminate it.

Tell Congress you will not sign any "emergency" spending package, because you know Congress will stuff it with pork barrel projects. Also, pledge to veto any future appropriations bills containing egregious pork barrel projects.

Action 6: Challenge the current budget rules that block the government from saving money.

Current laws will prevent your department chiefs from even studying such things as privatization and government asset sales. Other legislation, in the form of congressional mandates to executive agencies, specifically protects programs or facilities with no value. You should demand expanded executive branch management flexibility and the elimination of congressional mandates on executive agencies.

Action 7: End the use of "baseline" or "current services" budgeting technique in your first budget, and use this budget to educate taxpayers on how their money is being spent.

Washington budget jargon means most "cuts" are increases and "increases" are spending explosions. Moreover, most budgets hide important information from taxpayers, such as how much of their money is spent on duplication, outmoded and unnecessary programs, and overhead. Take to the airwaves and explain this to the American people, and thus build support for budget reforms.

These steps will provide you with the foundation you need for the longer-term actions needed to put the federal budget onto a sound footing. These longer-term actions should include:

Action 8: Gain legislation to establish fixed, long-term caps on the growth of federal spending — especially domestic spending.

If taxpayers understand that spending will be limited in future years, they are more likely to support your priorities over those of Congress and the special interests.

Action 9: Put the interests of ordinary Americans above Washington's special interests by supporting a "waste dividend."

You should fulfill your promise to lower the tax burden on families with children by funding tax cuts with spending cuts—not with tax increases on other Americans. This strategy uses savings you achieve by eliminating wasteful federal spending to pay for family tax relief. For instance, eliminating $1 billion in wasteful spending can pay for a $1,000 waste dividend check or tax cut to one million American families. Thus, if you were to bundle hundreds of wasteful programs together in an omnibus spending cut package, the savings would be sufficient to pay for substantial tax relief for millions of middle-class families with children.

Action 10: Reject calls to divide the budget into a "current" budget and a "future" (or capital) budget.

This attractive-sounding proposal simply will institutionalize $300 billion deficits—rationalized as "investments in the future." It will also reduce your control over the budget process.

Action 11: Press Congress to appropriate all entitlement spending — except for Social Security — every year.

Politicians should have to decide annually how much of the nation's resources are to be allocated to these "entitled" interests.

Action 12: Seek legislation to extend for five years the "firewall" that currently separates domestic spending and defense spending, and eliminate the firewall that now separates domestic discretionary spending and domestic entitlement spending.

The 1990 budget agreement created budget rules for fiscal years 1991 through 1993 that prevented the shifting of funds between four categories of spending: domestic discretionary, international discretionary, defense discretionary, and domestic mandatory. In fiscal years 1994 and 1995, the so-called firewalls between the discretionary categories will be eliminated, allowing funds to be shifted between these programs. Most experts agree that deeper defense cuts will be used to finance higher domestic discretionary spending.

A more rational budget system should have a single firewall, not one that separates discretionary spending from mandatory spending, but one that separates funds dedicated for the nation's defense needs and its domestic needs. Such a budget rule would force a healthy competition between programs within each specific category; in the same way the Air Force and the Marines must compete for moneys allocated for defense needs, so too should AMTRAK and Medicare compete for moneys allocated for domestic needs.

This new budget rule also would insure that deeper defense cuts were used for either tax cuts or deficit reductions, and not for higher domestic spending.

Why You Must Win the Budget War

President-elect Clinton, you are committed to "Putting People First." But the federal budget process is currently rigged to "Put Washington First." Unless you can reform that budget process, you will never get control of the budget, and you will never achieve your promises to the American people. The challenge to you is to move decisively to put the budget house in order.

If you take up the challenge, you will need to follow strategies that pit the wider interests of the American people against the narrower interests of Washington's establishment. Such strategies will put you on the high ground from which you can attack Washington's parochialism and will give you the leverage you need to reduce the power of congressional committees and the special interest lobbyists who influence them. To be sure, you are greatly outnumbered. Dispersed decision-making authority over federal spending, and arcane budget rules, make the federal budget currently uncontrollable.

YOUR BUDGET LEGACY FROM GEORGE BUSH

By nearly every measure, George Bush leaves office as the biggest spending President in history. Given the political trap neatly laid for him by Congress, Bush could neither take credit for this record, nor denounce it as the result of congressional overspending. Indeed Bush had every incentive to ape the conventional Beltway wisdom that he had continued the supposedly miserly ways of Ronald Reagan. Thus you, Mr. Clinton, inherit a government fattened by four years of rampant spending and tax increases, yet one that is hungry for even more spending to make up for twelve years of "unmet needs."

Ironically, this situation is not unlike that faced by the last Democratic President. It is not widely known that the second Nixon/Ford term was, at that time, the most spendthrift in history. Carter inherited a government in which domestic spending had grown a cumulative $376 billion above the inflation rate during the previous four years. And although Carter's spending record comes nowhere close to that of Nixon and Ford, it is Carter—not his predecessors—who is characterized as a profligate President.

The Bush Administration lost control of federal spending in early 1989 and never regained it. Total federal spending jumped a remarkable $108 billion, or 9.4 percent, in Bush's first fiscal year (1990) alone, only a third of which can be attributed to a rise in savings and loan (S&L) bailout costs. The resulting boost in the projected deficit threatened to trigger an across-the-board sequester required under the Gramm-Rudman-Hollings deficit reduction law. It was the fear of this outcome that prompted a "mini-budget summit" with Congress. Using a series of budget gimmicks, such as moving the Postal Service "off budget," the summit avoided the impending sequester but essentially set the stage for the 1990 budget agreement.

It is now clear that by all reasonable accounts the 1990 budget agreement was a policy disaster. As important, however, it was a political disaster because by agreeing to the summit in the first place, the Bush Administration essentially admitted publicly that it had lost control of the budget process. As it was advertised, the ill-fated agreement between Congress and the Bush White House was supposed to reduce budget deficits by a total of almost $500 billion over the 1991-1995 period. But as Heritage Foundation scholar, Daniel J. Mitchell, has pointed out, "in every possible way... the deal failed."[1]

1 Daniel J. Mitchell, "Washington's Budget Binge: Getting Even Worse," Heritage Foundation *Backgrounder* No. 912, August 19, 1992.

Example: The cumulative budget deficit for the 1991-1995 period now is expected to be $707.8 billion higher than the figure projected in the 1990 *Mid-Session Review [of the Budget]*—made before the "deficit reduction" deal was consummated. The budget agreement was supposed to cut the deficit $500 billion.

The Bottom Line: An "error" of $1.2 trillion by the budget summit negotiators.

Example: Projected spending levels, instead of falling by $325 billion between 1991 and 1995, as negotiators in 1990 predicted, will be $179.8 billion above the 1990 *Mid-Session Review* projections, according to this summer's *Review.*

The Bottom Line: A $500 billion "error."

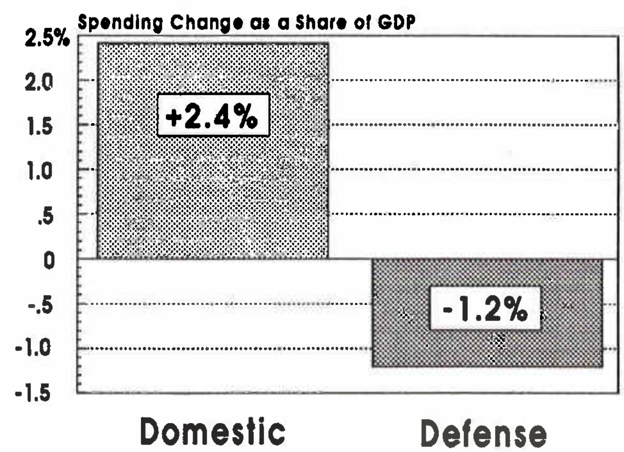
Example: The tax hikes in the budget deal were supposed to generate $175 billion of additional revenue between 1991 and 1995. But [the 1992 summer] *Review* predicts that revenue during this period will be $528.5 billion below 1990 *Mid-Session Review* projections.

The Bottom Line: an "error" of over $700 billion.

THE DOMESTIC SPENDING EXPLOSION

While the Bush Administration lost a major battle on domestic spending growth in its first budget, it lost the war on spending when it backed the 1990 budget agreement. It is clear now that the agreement built in a substantial increase in domestic spending and a sizeable decrease in defense spending. Effectively, the heralded "peace dividend" was spent more than twice over. The disappearance of the peace dividend can be seen in two ways: first, by looking at how much domestic spending and defense spending have changed as a share of GDP; and second, by looking at how much each of these items has changed relative to the inflation-adjusted level that Bush inherited from Reagan.

Bush Peace Dividend? Military Cuts Have Been Overwhelmed By Domestic Spending Increases

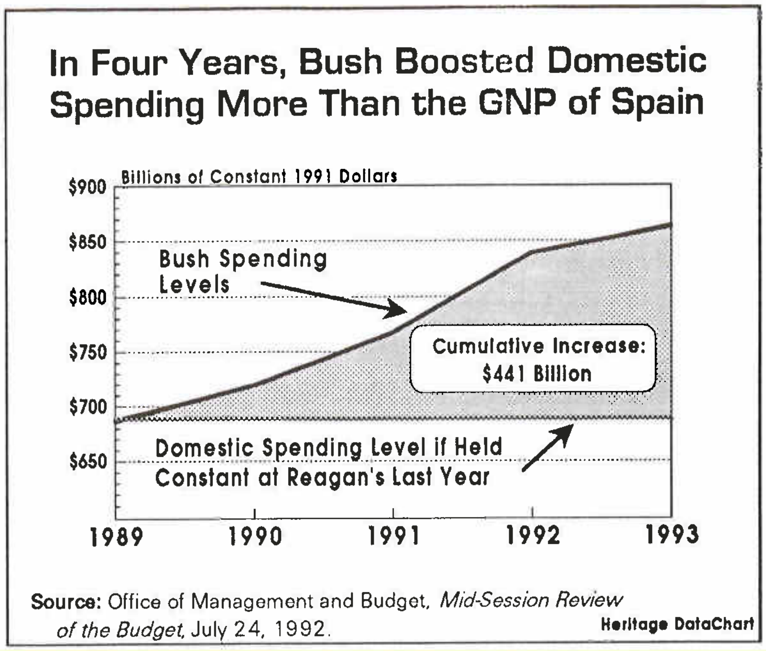


Source: Office of Management and Budget, *Mid-Session Review of the Budget*, July 24, 1992.

Heritage DataChart

When Reagan left office, during fiscal 1989, domestic spending consumed 12.2 percent of GDP.[2] This was its lowest level as a share of the domestic economy since fiscal 1974, when domestic programs consumed 11.6 percent of the economy. In four fiscal years, Bush allowed domestic spending to grow to

2 As is mentioned above, all references to domestic spending exclude net interest payments on the federal debt and the costs of bailing out failed savings and loans (in budgetary terms, "deposit insurance").



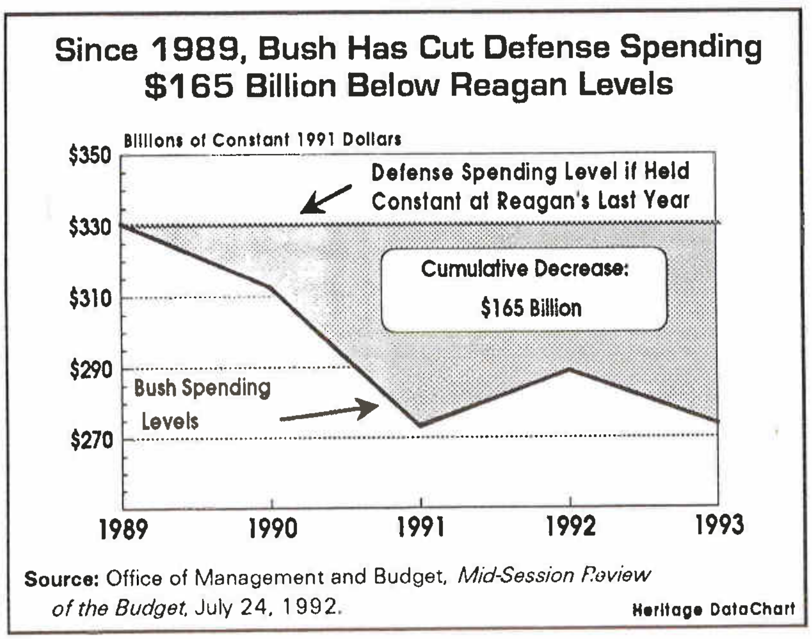
Source: Office of Management and Budget, *Mid-Session Review of the Budget*, July 24, 1992.

14.6 percent of GDP, a roughly 2.4 percentage point jump in spending as a share of the domestic economy.

Defense spending, however, consumed just less than 5.9 percent of GDP in Reagan's last fiscal year, the lowest point since Jimmy Carter left office. But defense spending's share of the economy fell further during Bush's tenure, to roughly 4.8 percent of GDP, or a decline of 1.2 percentage points. As the above chart makes clear, domestic programs have enjoyed a "peace dividend" far in excess of the actual reduction in defense spending.

The second way of examining this change in spending priorities is by comparing the level of spending during a President's term with the level of spending (held constant for inflation) he inherited from his predecessor. This treats the inherited level of spending, in effect, as zero. Each subsequent year's spending above or below this level during a new President's term can then be attributed to his policies. At the end of a term, the additional spending can be added together for a cumulative total and compared with that for other Administrations.

Using this measurement, George Bush inherited a $689 billion level of domestic spending, adjusted to 1991 dollars. Had Bush continued this level of spending through his term, domestic spending would have remained $689 billion per year, when adjusted for inflation. However, as is shown in the adjacent chart, in four fiscal years Bush spent a cumulative $441 billion above this level; some $32 billion in the first year, nearly $81 billion in the second, $152 billion in the third, and $176 billion in the fourth.



Source: Office of Management and Budget, *Mid-Session Review of the Budget*, July 24, 1992.

By comparison, over eight years Reagan allowed domestic spending to grow only $58 billion above the inflation-adjusted level he inherited from Carter. In other words, Bush allowed domestic spending to grow nearly eight times faster in one term than Reagan allowed in two terms.

The cuts in defense spending during Bush's term were also dramatic, but not as dramatic as the increases in domestic spending. Over the last four years, defense has fallen by a cumulative $165 billion below the inflation-adjusted level Bush inherited from Reagan. Thus, a $1 real cut in defense spending during Bush's term led to a nearly $2.70 increase in domestic spending.

Record Domestic Discretionary Spending

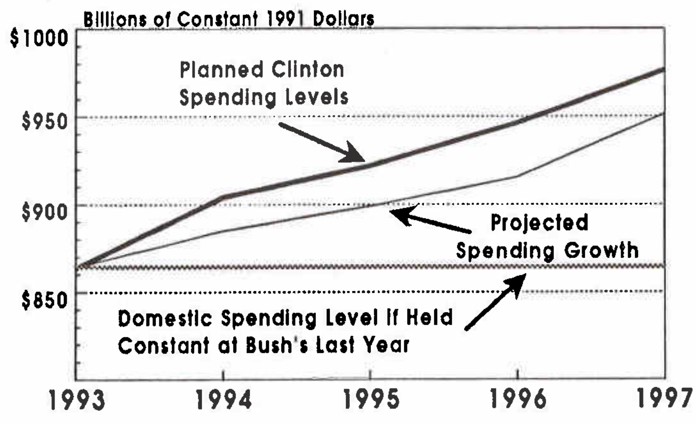
Contrary to many press and White House explanations for this increase, by no means all of this increase has been due to rising entitlement spending. In fact, as a "payoff" for supporting the passage of the 1990 budget agreement, the White House gave congressional appropriations committees increases in discretionary spending for fiscal years 1991 through 1993 totaling some $27 billion above the pre-summit projections. As the result of this gift to Congress's spending committees, Bush leaves office with domestic discretionary spending nearly $57 billion higher than Reagan's last budget. Moreover, after adjusting for inflation, the level of domestic discretionary spending during Bush's term has now soared back up to the levels funded under Jimmy Carter.

Except for the Department of Defense, the government agencies that you, Mr. Clinton, will soon be responsible for are bursting with new spending programs. Many of the programs you have promised to spend additional funds on have done very well during the past four years. In particular, the Department of Transportation—where you want to increase highway spending—spends a whopping 30 percent more today than four years ago. The Department of Education — also due for more spending under your leadership—spends nearly 43 percent more than four years ago. And the Environmental Protection Agency, enjoys more than a 26 percent increase in spending today than before George Bush entered office.

A CLINTON SPENDING EXPLOSION?

Unless you take dramatic action soon, the level of spending already built into the budgetary system during the past four years will make you an even bigger spender than Jimmy Carter—even if you do not enact a single new program.[3] The reason is that current spending projections indicate that domestic spending will grow by a cumulative $191 billion above the inflation rate during your term. By contrast, Carter allowed domestic spending to grow $185 billion above the inflation rate during his term.

Clinton Plans to Boost Domestic Spending Over $100 Billion More than Current Projections



Source: Office of Management and Budget, *Mid-Session Review of the Budget*, July 24, 1992.

Heritage DataChart

If you do not take steps to control the budget, you will only compound this spending record if you follow through with the domestic spending agenda you outlined in *Putting People First.* When this spending is added to the current projections of domestic spending for the next four years, the result is a staggering $293 billion increase in domestic spending above the inflation rate.

3 The analysis below is alrgely based on projections contained in OMB's *Mid-Session Review of the Budget*, released on July 24, 1992. The latest budget forecasts contained in OMB's recently released *Budget Baselines, Historical Data, and Alternatives for the Future*, are not detailed enough to credibly update the analysis. However, the aggregate figures projected in the new budget statement clearly show a worsening of the overall budget picture. Total spending for fiscal years 1994-1997 is now expected to be $98 billion higher than the levels projected in July 1992. In addition, current revenue projections for the same period are a total of $91 billion below the July estimates.

Your Domestic Spending Agenda. You have said that you plan to increase domestic spending by a net amount of nearly $118 billion over the next four years.[4] As is shown in the adjacent table, this includes some $197 billion in new spending ($134 billion on "jobs" and $63 billion on "education"). It also includes your hope to gain congressional approval for domestic spending cuts of nearly $80 billion ($4.4 billion in entitlement cuts and $75 billion in "other" domestic programs). Thus your spending increases will add an average of nearly $30 billion per year to the spending already projected through fiscal 1997.

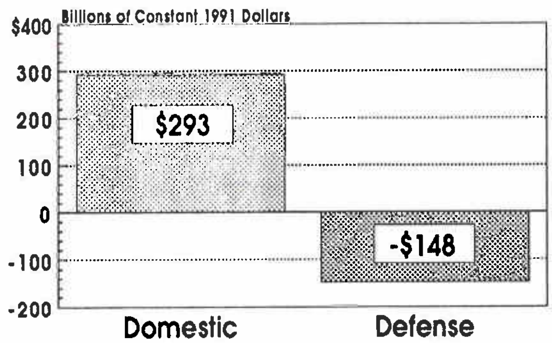
Clinton Domestic Spending Agenda

Billions of Current Dollars	1993	1994	1995	1996	Total
Spending Hikes					
Jobs	$28.30	$34.60	$35.40	$35.40	$133.70
Education	10.10	14.25	17.27	21.70	63.32
Spending Cuts					
Entitlement Cuts	-0.60	-1.00	-1.00	-1.80	-4.40
Other Cuts	-13.01	-19.79	-18.05	-24.21	-75.06
Net Increase	$24.79	$28.06	$33.62	$31.09	$117.56

Source: Clinton Campaign, *Putting People First*, 1992.

With the increases in spending already in the pipeline, this means that during the next four years, domestic spending could increase a total of $293 billion above the inflation-adjusted level you inherited from Bush.

No Clinton Peace Dividend: Planned Domestic Spending Increases Are Twice Defense Cuts



Note: Data represent cumulative spending above or below inflation-adjusted spending of preceding President.
Source: Office of Management and Budget, *Mid-Session Review of the Budget*, July 24, 1992.
Heritage DataChart

Your Defense Spending Agenda. You have been straightforward with the American people in saying that you feel further cuts can be taken in defense spending. According to *Putting People First*, you intend to trim defense an additional $53 billion below current projections over the next four years. This includes: $37.5 billion in unspecified cuts below Bush's enacted cuts; $5.7 billion in procurement savings; $9.8 billion in savings from inventory improvements.

What is not stated explicitly, however, is that these reductions could lower defense spending to less than 3.4 percent of GDP by fiscal 1997. It is important to note that this would be the lowest level since 1940. These cuts will amount to a cumulative $148 billion below the inflation-adjusted levels you inherited from Bush.

Clinton Planned Defense Cuts

Billions of Current Dollars	1993	1994	1995	1996	Total
Beyond Bush	$2.0	$8.5	$10.5	$16.5	$37.5
Procurement	5.7	0.0	0.0	0.0	5.7
Inventory	2.3	2.5	2.5	2.5	9.8
Total Cuts	$10.0	$11.0	$13.0	$19.0	$53.0

Source: Clinton Campaign, *Putting People First*, 1992.

4 *Putting People First* actually outlines spending for years 1993 through 1996. These are the calendar years of Clinton's tenure. Clinton, however, will preside over fiscal years 1994 through 1997. For the purposes of comparison, it is assumed here that the spending proposals contained in *Putting People First* will indeed take effect during the fiscal years 1994 through 1997. Any supplemental spending or "emergency" stimulus spending enacted during the current fiscal year (1993) is not included here.

When your domestic spending increases are placed alongside your planned defense cuts, the picture becomes clear. For every one dollar you intend to cut from defense spending, you will increase domestic spending by some $2. The nation's second "peace dividend," in other words, will be spent two times over.

HOW TO CONTROL FEDERAL SPENDING

Unless a President is prepared to act quickly and decisively, he can soon be relegated to the status of helpless bystander in the federal budget process. After the President begins the process by submitting his budget to Congress, his power to control the process and its outcome steadily declines. The power and decision-making over budget priorities moves instead into the hands of seventeen committees in the House of Representatives and fifteen Senate committees. According to Hoover Institution scholar John F. Cogan, who was served as deputy director at OMB in 1988-1989:

> Dispersing spending authority among these powerful committees is a recipe for excessive spending and persistent budget deficits. Under such a system, the total level of spending is beyond any single committee's control. Therefore, political accountability to the electorate for total spending is diminished.[5]

The environmental phrase "tragedy of the commons" best describes the way in which this dispersed budget authority tends to lead to excess spending and deficits. One example of the tragedy of the commons can be seen in common waters of the ocean where the right to fish is open to all. If there is no single authority or owner to regulate the access to and the demand on this resource, then everyone has the incentive to catch as many fish as possible today, but no one has the responsibility for ensuring that there are any fish left for tomorrow. In response to this problem, international treaties now set limits on the total tonnage of fish each country can catch. Individual countries are then responsible for allocating the catch among their own fishermen within these overall limits, or quotas.

In the same way, federal spending will remain out of control unless you, as the representative of the national (as opposed to regional or local) interests, are prepared to take firm action. This means adopting specific strategies that strengthen your control over the budget process by limiting the resources available to Congress and the special interests.

THE FIRST 100 DAYS

You cannot delay in these actions, or you will lose control of the budget as surely as your predecessor did. Specifically, you should take the following actions within 100 days:

Action 1: Use your executive authority to reinstate the Gramm-Rudman-Hollings deficit reduction targets.

The day after you take office you are required by law to decide whether or not to reinstate the fixed deficit targets that made Gramm-Rudman an effective spending control measure during Reagan's second term. Since the 1990 budget agreement, the Office of Management and Budget has had the power to adjust the deficit targets for "technical and economic" reasons, a practice which allows spending and deficits to explode without penalty. By executive authority, you

5 John Cogan, *Federal Budget Deficits: What's Wrong with the Congressional Budget Process* (Stanford, Calif.: The Hoover Institution, 1992).

can put an end to this enormous loophole and thus reinstate the grim political prospect of a sequester, a penalty which will concentrate the mind of every congressman, and force a long-overdue showdown over spending priorities.

Action 2: By executive order, suspend the 1931 Davis-Bacon Act for all federal construction contracts.

You should use your presidential authority, as President Bush did after Hurricane Andrew, to cut the cost of federal construction projects by suspending the Davis-Bacon Act. This action also would create much-needed construction jobs for minority and low-income workers. The Davis-Bacon Act is a sixty-year-old federal "Jim Crow" law that artificially raises federal construction costs some $1.5 billion annually by requiring that union wages be paid. This restricts job opportunities for less skilled workers—often minorities—by reserving most entry-level jobs for skilled workers. In addition, you should suspend the analogous Service Contract Act, which applies to all federal service contracts.

Action 3: Use the vote on raising the legal debt ceiling (expected in March 1993) as a lever to force budget process reforms that will control spending.

This necessary vote will be your first, best—and perhaps only—hope for taking control of the federal budget process. For the new Members of Congress, this vote will their first major fiscal vote and most will be reluctant to increase the government's credit limit unless they can show constituents back home that they have achieved real deficit control. With their help, you can extract tough concessions—such as long-term spending caps and even a constitutional line-item veto—from the leadership in Congress before you agree to an increase in the debt ceiling.

The debt ceiling vote has been used successfully in the past to reform the budget process. The most notable example is the Gramm-Rudman-Hollings deficit reduction law, which was an amendment to a debt ceiling bill in 1985. You should be wary, however, of a congressional bait-and-switch. Congressional leaders are likely to promise a vote on a reform package, but one separate from the debt ceiling vote. After the debt ceiling is passed, of course, Congress will never get around to the needed reform legislation. You should not be fooled by this tactic, and should demand that the reforms are included in the debt ceiling bill.

Failing these reforms, you should, at a minimum, demand the same powers you had as Governor of Arkansas:

- ✓ **Statutory line-item veto authority;**
- ✓ **A statutory balanced budget requirement;**
- ✓ **Executive authority to reorganize departments without legislative approval;**
- ✓ **Executive authority to transfer funds within departments or units of government.**

Action 4: Establish a presidential commission to examine options for cutting federal spending, modeled after the Base Closing Commission.

Some experts, such as those at the Progressive Policy Institute, have recommended that you establish a commission to draw up ways of eliminating wasteful federal subsidies.[6] Such a commission would "shield" those making the tough decisions from the pressures of

Washington's special interests. This commission would also hold lawmakers harmless for having voted for unpopular measures because Congress would be bound in advance to conduct an up-and-down vote on the entire package, without amendment. This strategy proved very successful in the effort to identify, then close, obsolete military bases.

While there is merit to evaluating the economic value of such things as timber subsidies, agriculture subsidies, and selected tax credits, there are many other government activities that deserve similar scrutiny. Thus you should expand the mandate of this commission to include identifying other areas of spending that could be cut. This should include programs that duplicate others, those that are obsolete or ineffective, and those which are state, local, or private—not federal—responsibilities.

There are many sound ideas for cutting federal spending that have been around for years and have yet to receive a proper public hearing. For example, in February 1981, the Congressional Budget Office—then under the leadership of Alice M. Rivlin, your nominee for Deputy Director of the Office of Management and Budget—published the first of its annual reports on spending cuts and revenue raising options for reducing the deficit.[7] Many of the spending cut options suggested by CBO then still have not been enacted today because Congress has ignored them. The options include:

- ✓ **Reduced funding on highways;**
- ✓ **Private financing of the Strategic Petroleum Reserves;**
- ✓ **Increase waterway user fees;**
- ✓ **Reduced funding for EPA Construction Grants;**
- ✓ **Elimination of Farm Deficiency Payments;**
- ✓ **Reduced funding for AMTRAK;**
- ✓ **Repeal of the 1931 Davis-Bacon Act;**
- ✓ **Elimination of Maritime Industry Subsidies;**
- ✓ **Reduced funding for Impact Aid;**
- ✓ **Modification of Trade Adjustment Assistance;**
- ✓ **Block grant funding for AFDC and Medicare administrative costs; and**
- ✓ **Ending the Airport Grants-in-Aid program.**

These would make an excellent starting point for a spending control commission.

---

6 Will Marshall and Martin Schram, eds., *Mandate for Change* (New York: Berkley Books, 1993).

7 The Congressional Budget Office, *Reducing the Federal Budget: Strategies and Examples, Fiscal Years 1982 - 1986*, February 1981.

Action 5: Send early, unequivocal signals of your opposition to wasteful spending and your eagerness to eliminate it.

The budget process is a trial of strength between Congress and the White House. And when lawmakers sense weakness on the part of a President, Congress quickly gets the upper hand and red ink begins to surge.

To avoid this, you need to send clear signals to Capitol Hill that you intend to stand firm on the budget. Among the steps you can take:

1) **Declare that you will not sign an "emergency" stimulus spending package.** These bills usually turn into "Christmas trees" for congressional pork barrel projects. For example, when President Bush requested supplemental spending to pay the costs of the Persian Gulf war, Congress larded this bill with pork such as: $500,000 for the National Commission on Manufactured Housing; $78,000 for salary increases in the Delaware and Susquehanna River Basin Commissions; $5.8 million for an Army Corps of Engineers' project in New Jersey; and, $1 million in Legal Services Corporation grants. If you suggest that you might sign an emergency bill. Congress will take that as a green light, and will assume you are not really serious about budget control.

2) **Reopen OMB's privatization office.** During the Reagan Administration, the privatization office within the Office of Management and Budget developed ideas for "reinventing government" by using market techniques to deliver public services. And since it was part of OMB, and run by an Associate Director of OMB, it could pressure agencies to draw up and implement privatization plans. But the office was effectively closed down during the Bush Administration. As a signal of your seriousness to launch a "revolution in government" you should reopen this office under a high OMB official. An in-house privatization team within the White House will provide you with alternatives to government-run services. This will give you valuable ammunition to show the public the wisdom of your statement that "the answer for every problem cannot always be another program or more money."

3) **Promise to veto any future appropriations bills containing pork barrel spending.** If you are unable to get line-item veto authority, you should simply veto entire bills containing pork barrel projects. You should take to the airwaves and tell the American people what unacceptable projects are hidden in each bill. You should add that you will shut down the agencies involved to force Congress to rescind funding for the projects.

Action 6: Challenge current budget rules that block the government from saving money.

A host of rules, accounting procedures, and congressional mandates limit the executive branch's right to manage federal programs in a cost-effective and innovative way. Some legislated requirements stop agencies from even studying certain ways to save money.

As you begin to prepare your first budget, you should remember that Congress routinely attaches mandates to appropriations bills to limit a President's ability to manage government programs in the most efficient manner possible.

For example, Congress regularly sets minimum levels on the number of employees that must staff certain agencies, even if the function could be done with a fraction of the staff. These "employment floors," as they are known, are to create jobs in agencies favored by particular congressmen and to prevent agency managers from making the most effective use of the employees they supervise, such as by shifting workers from one department to another.

Other rules similarly prevent managers from saving taxpayer's money.

Example: The Farmers Home Administration (FmHA) wrote off some $8.5 billion in loan losses in the past three years. One reason it did so is that Congress prohibits the FmHA from cracking down on bad debtors or from hiring private collection firms to collect on delinquent loans. In many cases, new loans must be given to known poor credit risks.

To prevent more such legislated inefficiency and waste, you should promise to veto any appropriations bill containing objectionable mandates on executive branch agencies.

You should also fight to end budget procedures that block innovative privatization measures and the sale of federal assets. Like many taxpayers, you may be unaware of the fact that the federal government is prohibited by law from reducing the deficit by selling government assets. The 1990 budget agreement, for instance, instituted rules that prevent Congress and the Administration from counting any funds raised from the sale of government assets towards deficit reduction.

In an era when governments from Moscow to Mexico City are transferring their assets to the private sector, and municipalities and states all over America are privatizing assets and services, it is ironic that the U.S. Congress discourages or prohibits the federal government from selling assets to reduce the deficit.[8]

There are many assets that your Administration could easily sell:

Example: The government currently holds some $205 billion worth of outstanding direct loans. These loans should be sold to the secondary loan market in much the same manner that a mortgage company resells its loans. Doing so would raise money while improving the management of the loans. The Farmers Home Administration raised nearly $4 billion for the Treasury in 1987, the last year in which the agency was legally allowed to sell its loans to the private sector.

Example: The government currently manages enterprises worth billions of dollars that should be sold and operated by the private sector. These include the Naval Petroleum Reserves, the Power Marketing Administrations, the Tennessee Valley Authority, and millions of acres of public lands.

There are benefits of asset sales beyond simply raising funds for the Treasury. Selling government assets to the private sector "leads to a net general economic gain."[9] The reason for this is the near universal evidence that private sector management of assets is more efficient than government management. An improvement in the productivity of these assets will have a long-term benefit to the economy. Further, as municipalities well know, privatizing an asset or service turns a currently untaxed enterprise into a taxable one. Thus the sale of a government enterprise can both eliminate a long-term liability from the federal books and gain a source of future tax revenues.

---

8 Scott A. Hodge, "Lessons from Business on Cutting Federal Spending," Heritage Foundation *Backgrounder* No. 911, August 14, 1992.

9 Stuart M. Butler, "Why Asset Sales Are Good Public Policy," *Heritage Lecture* No. 148, p. 2.

Action 7: End the use of "baseline" or "current services" budgeting techniques in your first budget, and use this budget to educate taxpayers on how their money is being spent.

You can use the presentation of your first budget to get the upper hand on the interest groups and Congress simply by avoiding the use of the "current services" concept for the budget.

As you know, under "current services" or "baseline" budgeting, program costs are projected into the future based upon such criteria as the requirements of current law, estimated inflation rates, and the expected growth in demand for the good or service provided. Example: Using current services budgeting, a program that costs $100 million this year might be projected to cost $110 million next year. But if the program is budgeted for $105 million, instead of the projected $110 million, it actually is said that the program has been "cut" by $5 million—even though the program received $5 million more than in the previous year. If the program actually is cut—in the way understood by Americans outside of Washington—by $5 million to $95 million, then Washington registers a deeper $15 million cut.

Baseline budgeting is not just a deception at taxpayers' expense. According to budget scholar Allen Schick, it also weakens politicians' control of budgetary resources by strengthening the claims on funds of interest groups before any allocation decisions have been made.[10] In other words, these groups see themselves as entitled to the projected increases in a program, and thus feel that their funding has been cut if the current year's increase falls below the baseline.

If you include in your budget "baselines" or projected levels of future spending for particular programs, such as Medicare, you would do well to display the assumptions and computations used to make these projections. Doing this, suggests Schick, will greatly assist policy makers to make informed and intelligent decisions, especially with regard to highly sensitive programs.

You must also explain the budget to the American people. Even skilled budget experts now find the federal budget document imposing and largely uninformative. The budget should be an effective tool to educate taxpayers on how much of their money is spent on such things as duplication, waste, outmoded programs, and overhead. You should undertake the task of explaining the budget, and especially the reforms you want to make, in plain English to the American people. As Ross Perot showed, Americans are quite prepared to listen to explanations of how Washington works.

Educating taxpayers is not just good civics. It will give you considerable leverage over Congress. For example, few taxpayers know that the federal government currently funds nearly 80 different, overlapping anti-poverty programs. The annual cost of these programs to all levels of government totals $250 billion—more than twice as much as it would take to lift every poor American above the poverty threshold if they were given their share in cash. If more taxpayers understood these facts, you would gain greater public support for your structural welfare reforms.

Long-Term Strategies

Your long-term goal should be unequivocal—reducing the power of the spendthrift Congress and Washington's special interests. After taking actions in the first 100 days to take the initiative and to build public support for reform, you should embark on strategies to achieve structural reform of the budget. Among the necessary actions:

---

10 Allen Schick, *The Capacity to Budget* (Washington, D.C.; The Urban Institute Press, 1990), p. 210.

Action 8: Establish fixed, long-term caps on the growth of federal spending—especially domestic spending.

At most, the total level of domestic spending should not be allowed to grow faster than the average rate of inflation.

You are likely to have strong public support for such an inflation-adjusted freeze on spending. Most taxpayers understand fixed budgets; after all, they have to live within their means. And many taxpayers, such as union members with long-term contracts, know years in advance how much they will be earning and can tailor their household budgets around this amount. Thus taxpayers have a right to know, even five years in advance, how the government plans to spend their money in the future.

But the government does not currently budget like households. Prudent households budget by looking at what their income is, then they figure out how to budget within this given level. If they borrow, they figure out a repayment schedule. If necessary to meet their income constraints, they then cut out less important spending items. This might be called "budgeting by subtraction": subtracting the lowest priority items to reach the total amount you can spend. Government budgets by addition. Government figures out what it wants to spend, then it figures out how to pay—or borrow—for it.

Strict and predictable long-term caps on spending would force government to spend by subtraction.[11] That means it would have to set real priorities in spending, and discard unjustifiable spending items. Thus caps would give you considerable leverage over the spending process, Congress, and the interest groups. If the American people know in advance that only a fixed pot of money is available, then they are more likely to back your priorities over the special interests when tough decisions must be made.

Action 9: Put ordinary Americans above Washington's special interests by supporting a "waste dividend."

Spending will continue to soar out of control as long as the costs of government are disbursed among all taxpayers and the benefits are concentrated among narrow interests. Thus the more strategies you can employ that put federal spending in human, or family, terms the more you will achieve broad-based support to stand up to Congress and the special interests.

Far too often, Members of Congress and the special interests get away with expensive pork barrel projects by arguing that this spending "only cost the average American a nickel." Take, for example, the roughly $5 million grant that Congress approved for bee research last year. The elimination of this project would bring loud protests from the organized bee interests—they will lose their $5 million. But abolishing this program would generate few, if any, cheers of support from the roughly 100 million working Americans since for each of them the perceived benefit is only 5 cents.

As one strategy to change the terms of this debate, you should fulfill your promise to lower the tax burden on families with children by funding these tax cuts with spending cuts —not with tax increases on other Americans. Such a tax relief plan can be a by-product of the spending caps placed on domestic spending. As the spending caps force the waste out

---

11 Aaron Wildavsky, *The New Politics of the Budgetary Process* (Glenview, Illinois: Scott, Foresman and Company, 1988), p. 426-8.

of the budget, you should give some of these savings back to American families in the form of a "waste dividend."[12]

Eliminating $1 billion in wasteful spending is sufficient to pay for a $1,000 waste dividend to 1 million American families. Another way you can present this to the American people is to ask, "How many families could be provided $1,000 in tax relief if government does not spend money on such wasteful projects?"

Example: Started in 1929, when the nation's defense needs were very different, the National Helium Reserves still survives today at a cost of over $120 million per year. Eliminating this program would save enough to pay for $1,000 in tax relief for 120,000 families—or half of the married couples with children in the entire state of Arkansas.

Of course, it is not possible to target tax relief to specific areas of the country, but it is possible to bundle hundreds of such projects together in an omnibus spending cut package and use the savings to provide substantial tax relief to all middle-class families with children. Thus the waste dividend strategy effectively empowers millions of working families in the budget process and gives them the incentive to join you against the narrower interests of Congress, bureaucrats, and the special interests.

A similar strategy you could employ is to explain the cost these wasteful projects in terms of how the money could be used more effectively if it were spent on your pro-family or pro-community inititatives.

Example: You have promised to fund federal enterpise zones in empoverished inner-city neighborhoods. This could cost as much as $2.5 billion over five years. Eliminating the wasteful Federal Crop Insurance Program could save some $2.8 billion over five years, more than enough to fund a credible enterprise zone inititative.

Example: You have promised to fully fund Head Start and the Women, Infants and Children (WIC) program. By some estimates, such an initiative could cost more than $15 billion over the next five years. However, you could easily pay for this inititative by canceling the planned space station, with a five-year savings of $9.7 billion, and eliminating needless highway demonstration projects, with a five-year savings of $6 billion.

The key to this strategy rests on how well you are able to show that more deserving Americans will benefit from the new expenditures than benefited from the previous program.

Action 10: Reject calls to divide the budget into a "current budget" and a "future (or capital) budget."

This seemingly sensible accounting change is a political minefield. You will quickly lose control over the budget process if you allow some federal spending to be set aside as investment or future spending. Such a measure would effectively institutionalize $300 billion deficits since these excesses would be rationalized by Congress as future spending.

Clever politicians would soon classify most federal spending as investments in the future, leaving few programs on the "present" budget. Some plausible examples:

---

12 Tom Schatz, acting president of Citizens Against Government Waste, deserves credit for orginating this concept.

- ✦ **Education and training programs would be labeled Investments in Human Capital;**
- ✦ **The $30 billion total projected cost of the space station would be termed Technological Investment;**
- ✦ **Agriculture research projects, such as bee research, Kenaf research, and asparagus research would all become Investments in Agriculture's Future.**

Indeed, you should do everything possible to keep all federal activity, including such programs as government sponsored enterprises (GSEs), back "on budget." It is incumbent upon elected officials to inform taxpayers of the true size and cost of government, not to engage in deception and sleight-of-hand.

Action 11: Push Congress to appropriate all entitlement spending—except for Social Security —every year.

Most taxpayers are unaware that, excluding interest on the debt, some 50 percent of all federal expenditures are never reviewed annually by Congress or the President. These are "mandatory," or "entitlement" programs which, by law, commit the government to spending money on every person or group who qualifies for the program. For example, when Congress established the wool and mohair subsidy program, it ordered that any sheep or goat farmer who produced a certain quantity of wool in a year would be automatically eligible for a subsidy check from the federal government without further congressional action. Thus unless Congress takes deliberate legislative action to change the eligibility requirements for this program, the wool and mohair program will continue to send out some $200 million in subsidy checks per year.

Transfer payments such as the wool and mohair program are jeopardizing the nation's fiscal and economic health. Politicians should have to decide annually how much of the nation's resources are to be allocated to these "entitled" interests. This change in the budget process does not mean necessarily that those eligible for public assistance should be cut off or that the subsidy program should be terminated. It does mean, however, that the amount these recipients are entitled to ought to be deliberately determined each year by Congress based upon how much the nation can afford.

Action 12: Extend for five years the "firewall" that currently separates domestic spending from defense spending.

The 1990 budget agreement divided the budget into two categories: discretionary spending and mandatory (or entitlement) spending. Discretionary spending was then divided into three sub-categories: domestic, defense, and international.

Strict budget rules, called "firewalls," prevent money from being shifted between any of these four categories during fiscal years 1991 through 1993. Beginning in fiscal 1994, these four categories will be reduced to two: discretionary and mandatory. Meaning: money can then be shifted between defense spending and domestic discretionary spending, but it cannot be shifted between mandatory and other parts of the budget.

You should seek legislation making these budget rules more rational. You should divide the budget into the two categories that best define our national priorities: Total Domestic Spending, and Defense/International Spending. There should not be a firewall between domestic discretionary spending and domestic entitlement spending.

There are two important benefits to these new rules. First, by specifying the total amount of resources allocated to the nation's defense and domestic needs, you will force a debate over priorities within each category. If, for instance, the Air Force and the Marines are forced to compete for the limited pool of money allocated for defense needs, it is likely that the highest priority items will be funded and the lowest priority programs dropped. Similarly, on the domestic side of the ledger, a healthly competition for resources between AMTRAK, Belgian Endive research, and Medicare would ensure that funds were directed to programs benefitting the greatest number of citizens.

Second, a strict firewall between defense spending and domestic spending would ensure that any additional defense cuts were used for a real peace dividend. A true peace dividend should be returned to the taxpayers or used for deficit reduction. Such savings should not be used for increased domestic spending.

Scott A. Hodge
Grover M. Hermann Fellow
in Federal Budgetary Affairs