

UPDATE

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HOW DOMESTIC CUTS CAN PAY FOR THE EXON-GRASSLEY BUDGET AMENDMENT

(Updating *Backgrounder* No. 931, "The Clinton Challenge Answered," March 5, 1993)

This week, lawmakers in the House will debate whether to adopt the Exon-Grassley amendment to the Administration's fiscal 1995 budget. This Senate-passed amendment, sponsored by Senators James Exon (D-NE) and Chuck Grassley (R-IA), requires \$26 billion in unspecified cuts from discretionary spending over the next five years, with all of the savings to be applied to deficit reduction. Critics of the amendment claim that cutting what amounts to \$1 from every \$320 of federal spending will result in draconian reductions in sensitive programs. Such claims are little more than variations on the "Washington Monument Ploy," in which bureaucrats and politicians mobilize public opinion against budget cuts by warning that an agency's most visible program might be shut down.

Since the House-passed budget did not contain a similar measure, the differences between the two bills will have to be worked out in a conference committee composed of leading budgeteers from the House and Senate. As it now stands, the House conferees will argue for stripping the Senate language from the budget. But a bipartisan team, led by Representatives John Kasich (R-OH), Tim Penny (D-MN), and Charles Stenholm (D-TX) has drafted a motion to instruct House conferees to maintain the discretionary spending cuts approved by the Senate.

The Kasich-Penny-Stenholm effort faces stiff opposition from many camps, including the White House. Oddly, the principal argument used by the White House is that this tiny cut in federal spending will have a serious impact on an already shrinking defense budget. Such claims are erroneous. There is no need to touch defense spending to meet the requirements of the Exon-Grassley amendment. Lawmakers could easily find the necessary cuts in the fattened domestic discretionary area of federal spending. Any claims to the contrary are simply thinly veiled attempts by the White House to protect its new spending initiatives—which Clinton calls "investments."

There are three common arguments against the Exon-Grassley spending cuts:

Claim #1. Because of last year's deficit reduction bill, spending is under control, so no further spending cuts are needed.

Wrong. According to the Administration's own budget, released in February, total federal spending will grow by \$370 billion over the next five years, to a level of \$1.85 trillion in fiscal 1999. This hike in spending exceeds the \$340 billion increase in the budget over the past five years.

Clinton's own budget figures show that he will become one of the biggest spending Presidents in history. And since defense spending is projected to fall in nominal terms by some \$22 billion by 1999, all of the growth in government is on the domestic side of the federal budget. After adjusting for inflation, domestic spending (ex-

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cluding net interest and savings and loan bailout costs)¹ will grow 14 percent more in four years under Bill Clinton than it did during the twelve years of Jimmy Carter and Ronald Reagan combined.

By fiscal 1997, aggregate domestic spending will exceed 15 percent of gross domestic product (GDP). By contrast, the entire government consumed only 17.6 percent of GDP at the beginning of the Great Society era in 1965.

Claim #2. The 1993 budget deal placed tight caps on discretionary spending; more cuts would force the gutting of essential programs.

Wrong. The “hard” freeze in overall discretionary spending gives the illusion of austerity, but actually allows for a boost in domestic spending at the expense of the defense budget. Domestic discretionary spending currently stands at over \$247 billion, the highest level in history, even after adjusting for inflation. This level is \$19 billion higher than George Bush’s last budget and some \$79 billion higher than Reagan’s last budget. For the big spenders who have enjoyed such large increases in domestic discretionary spending, any reasonable restraints in spending would seem “draconian.”

Since Reagan’s last budget in fiscal 1989, defense spending has declined \$61 billion, in 1993 constant dollars. Half of these cuts have gone toward deficit reduction, but the other half have funded increases in domestic discretionary spending.

Because of these trends, the end result of six years of collective Bush-Clinton spending decisions will be that domestic discretionary spending in fiscal 1996 will surpass defense spending for the first time. This is quite an achievement considering that defense spending exceeded all domestic spending by 30 percent at the time young Bill Clinton posed with President Kennedy in the White House Rose Garden.

If lawmakers are serious about cutting spending in order to reduce the deficit, they can easily find \$26 billion in cuts over five years from the bloated domestic part of the discretionary budget. Indeed, for those who are looking for cuts, the Congressional Budget Office last month released its annual guide, “Reducing the Deficit: Spending and Revenue Options.” This publication contains hundreds of possible spending cut measures, all of which seem to have been omitted from last year’s deficit reduction package. The following examples, totaling nearly \$52 billion, would be more than sufficient to comply with the Exon-Grassley amendment:

Recommendation	Five-Year Savings (in \$Billions)
Cancel the International Space Station Program	\$10.400
Reduce Department of Energy Funding for Energy Technology Development Efforts	2.530
Halt Acquisitions of Crude Oil for the Strategic Petroleum Reserves	.325
Eliminate Credit Subsidies Provided by the Rural Electrification Administration	.260
Abolish the Bureau of Mines	.880
Eliminate Federal Grants for Wastewater Infrastructure and State Revolving Funds	7.115
Reduce Federal Support for Agricultural Research and Extension Activities	.830
End Small Business Administration Loans and Loan Guarantees	2.680
Eliminate the U.S. Travel and Tourism Administration and Trade Promotion Activities	.820
Eliminate the Advanced Technology Program	.830
Eliminate Funding for Highway Demonstration Projects	2.590
Eliminate the Operating Subsidy for Amtrak	1.900

¹ For the remainder of this paper, the term domestic spending excludes net interest costs on the federal debt and the costs and off-setting revenues associated with the savings and loan bailout.

Recommendation	Five-Year Savings (in \$Billions)
Eliminate the Economic Development Administration	\$ 1.140
Eliminate the Appalachian Regional Commission	. 690
Reduce funding for Community Development Block Grants	2.140
Reduce Federal Support for Tennessee Valley Authority Activities	. 610
Eliminate All Impact Aid	4.120
Reduce funding by 50 percent for the Arts and Humanities Endowments	2.670
Consolidate Social Service Programs and Reduce their Budgets	2.330
Reduce the Overhead Rate on Federally Sponsored University Research	1.620
Reduce Spending for the High Performance Computing and Communications Program	1.230
Modify the Service Contract Act	1.050
Repeal the Davis-Bacon Act	3.080
TOTAL	\$51.84

Claim #3. The Exon-Grassley cuts are not specific, and lawmakers will have to take all or most of the savings out of defense spending.

Wrong. Defense spending has been cut to the bone, and Washington's big spenders are now using this fact to protect their own pork barrel programs. This ploy worries many Members who rightfully believe that defense spending has been cut far below what is prudent for the nation's defense needs. Indeed, the Clinton budget projects that by fiscal 1999, defense spending will fall to 2.9 percent of GDP, the lowest level since the 1930s. The Clinton Administration's five-year defense budget is already \$100 billion short of the amount needed to fund the forces called for in its own defense plan.

These cuts in defense spending over the next five years are especially severe when compared with the disproportionately large increases in aggregate domestic spending during the same period. Adjusting for inflation (in 1993 dollars), every \$1 decline in defense spending is met by a \$2.42 increase in domestic spending. This means that Washington is poised to spend a "peace dividend" twice, not return it to Americans in the form of tax relief. Under these conditions, lawmakers should ferret out every dollar of wasteful spending from domestic programs before they turn to defense for more cuts.

House lawmakers should think twice before rejecting the Exon-Grassley amendment to cut a mere \$26 billion from federal spending over the next five years. Indeed, they should ignore the scare tactics used by critics at the White House who are trying to protect wasteful domestic spending at the expense of an already anemic defense budget. If members need suggestions on where to cut domestic spending, they need look no further than the fine work of their own Congressional Budget Office.

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