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HOW CONGRESS WON THE BUDGET WAR

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INTRODUCTION

Last winter's budget battle between Congress and the President was seen by most observers as a victory for the President and a defeat for fiscal conservatives in Congress who were attempting to make major reductions and reforms in government spending programs. But when the smoke cleared and the fiscal year (FY) 1996 budget process finally came to a close, it was apparent that while a rhetorical *battle* was lost, the budget war was won by the fiscal conservatives. And the victory was unprecedented in scope.

How complete was the victory? The 104th Congress:

- ✓ **Reduced** year-over-year discretionary spending for the first time since 1969.
- ✓ **Reduced** the number of bureaucrats at 29 of the 39 major government offices between 1994 and 1996. ¹
- ✓ Eliminated over 270 programs, agencies, offices, and projects.
- ✓ **Helped** reduce the deficit to the lowest level in 14 years. Only President Reagan's FY 1982 budget deficit was lower.
- ✓ **Enacted** into law more privatizations in just one year than occurred during the entire eight years of the Reagan Administration.
- ✓ Forced a national debate on structural welfare reform and encouraged states to continue to overhaul their welfare systems. Since taking office, Wisconsin's Governor Tommy Thompson has effectively reformed his state's welfare program and reduced caseloads by 40 percent—reducing the demand for federal as well as state dollars. The 104th Congress included as part of welfare reform legislation much of the Wisconsin plan. Unfortunately, President Clinton chose to veto the bill.

Of the 111,900 estimated federal positions cut since 1994, 68,300, or 61 percent, have been from the Department of Defense. See Table 10-1, p. 180, Analytical Perspectives, *Budget of the U.S. Government*, FY 1997.

✓ **Deregulated** the agriculture and telecommunications industries. Congress passed a 1996 farm bill that begins to bring an end to costly Depression-era agriculture programs by getting government out of the business of telling farmers what to grow. This was the most sweeping reform in 60 years. Farmers increasingly will be able to grow to meet the demands of the market rather than the federal government. In addition, the Telecommunications Act of 1996 eliminates decades worth of outdated rules and restrictions on the telephone, cable, and broadcast industries. It will expand job and export opportunities within the industry, lower the cost of basic communications services, and free consumers to choose between competing providers of service.

WHAT BUDGET DEFEAT?

Although many in Congress have come to believe that they lost the budget war, the facts indicate otherwise. As the final FY 1996 budget reveals, this Congress accomplished an unprecedented reduction and elimination of unneeded federal programs, federal bureaucrats, and federal spending. To be sure, Congress did not close any of the four Cabinet departments — Commerce, Education, Energy, Housing and Urban Development — it targeted. Nor did it see its ambitious national reforms in welfare, Medicaid, and Medicare signed into law. But the hundreds of reforms it did accomplish were comprehensive and far-reaching. Indeed, many of its accomplishments were far bolder than even the *intentions* of the early Reagan Administration, which until now have served as the benchmark for ambitious fiscal restraint.

In the discretionary budget accounts alone, FY 1996 discretionary spending will experience its first decline since 1969 as a result of program terminations and major cuts. More than 270 separate programs, offices, agencies, projects, and divisions were eliminated completely. These include the Pennsylvania Avenue Development Corporation, the Office of Travel and Tourism, the Institute of American Indian and Alaska Native Culture and Arts, the Office of Technology Assessment, the Interstate Commerce Commission, the Bureau of Mines, the Administrative Conference of the United States, and hundreds of other programs throughout the government.

And whereas Congress fell short in its efforts to terminate such targeted programs as the Appalachian Regional Commission, the Department of Housing and Urban Development, the National Endowment for the Arts, and the Legal Services Corporation, it cut their budgets substantially and forced them to curtail activities. Indeed, even by early Reagan-era standards, the reforms are unprecedented. Examples:

- ◆ The first Reagan budget proposed to cut the National Endowment for the Arts by 27 percent, but achieved a 17 percent reduction. This Congress cut the Endowment by 38 percent.
- ◆ Reagan wanted the National Endowment for the Humanities cut by 23 percent in his first budget, but achieved 20 percent. This Congress cut it by 36 percent.
- ◆ Reagan proposed to cut mass transit subsidies by 10 percent; this Congress cut them by 43 percent.
- ◆ Congress cut the Appalachian Regional Commission by 39 percent and the Legal Services Corporation by 33 percent. Both agencies were slated for termination by the Reagan Administration and by this Congress, but both survived, albeit with significant reductions in funding.
- ♦ HUD's budget was cut by \$2.6 billion or by 10 percent compared with spending for the previous year.

♦ Both this Congress and the Reagan Administration failed in their plans to eliminate the Corporation for Public Broadcasting, which once again demonstrated its impressive skills at self-preservation, but this Congress made a real and deep cut. Reagan proposed a 25 percent cut, but CPB's budget rose \$10 million in his first year. This Congress substantially reduced CPB's spending last year through the rescission process, cutting planned spending by \$37 million in 1996 and \$55 million in 1997.

Comparing this Congress With Clinton's and Reagan's Selected Spending Cuts, FY 1995 to FY 1996					
Millions of Dollars in Cuts	Actual FY '95	Clinton Proposed FY 1996	104th Congress FY 1996	Congress's Change FY 1995-96	Reagan's Change FY1981-82
National Endowment for the Humanities	\$172	\$183	\$110	-36%	-20%
National Endowment for the Arts	\$162	\$173	\$99	-38%	-17%
Corporation for Public Broadcasting	\$292	\$312	\$275	-5%	+6.1%
Appalachian Regional Commission	\$282	\$183	\$170	-39%	-12%
Legal Services Corporation	\$415	\$440	\$278	-33%	-54%
Arms Control and Disarmament Agency	\$54	\$76	\$38.7	-28%	+10%

As a result of these and hundreds of other cuts, freezes, and terminations, this year's budget deficit is expected to total \$146.3 billion, in contrast to the \$193.8 billion expected for this year by President Clinton as part of his budget plan in 1993, and the \$196 billion projected in the FY 1996 baseline. Importantly, three-quarters of this deficit improvement is due to the spending reductions enacted by the 104th Congress. As noted earlier, FY 1996's projected deficit will be the lowest since President Reagan's FY 1982 budget.

HOW CLINTON HAS TRIED TO STOP ENTITLEMENT REFORM

Obviously, the deficit would have been much lower had Congress been as successful with the federal entitlement programs as it was with the discretionary spending accounts. Unfortunately, multiple vetoes by the President of repeated congressional efforts to enact reforms in major entitlement programs like welfare, Medicare, and Medicaid have left federal spending higher than it could have been and rendered future reform efforts more difficult.

But in welfare, at least, the congressional emphasis on welfare reform, including its passage by the House as part of the Contract with America, has encouraged many states to press the White House for waivers of current rules to enable these states to reform their welfare systems along the lines proposed by the House and Senate. President Clinton, fortunately, has agreed to many of these waiver requests.

As a result of these reforms, and despite the lackluster national economy, the number of Americans on welfare has fallen by 1.3 million between 1993 and the present, for an overall decline of 9 percent. Since taking office, Wisconsin's Governor Tommy Thompson has effectively reformed his state's welfare program and reduced caseloads by 40 percent. Unfortunately, President Clinton has blocked the rapid expansion of successful state programs like Wisconsin's to the rest of the nation by vetoing federal welfare reform legislation that would have removed the need for cumbersome waiver requests.

PRIVATIZATION FINALLY MOVES FORWARD

Perhaps in no other area was the difference between past and present performance as dramatic as it was in the 104th Congress's success in privatizing government-run enterprises. Spurred forward by the House Speaker's appointment of Representative Scott Klug (R-WI) to head up the House's privatization effort, numerous privatizations have been successfully concluded, often with bipartisan support and White House cooperation.

The Reagan Administration was able to privatize only Conrail and the National Consumer Cooperative Bank, because of intense congressional opposition during the 1980s. But in one year, this Congress has enacted legislation to privatize four major government programs. Although first proposed and developed in the mid-1980s by the Reagan Administration, it took this Congress to pass the legislation (which the President signed into law) to privatize the U.S. Enrichment Corporation, the Naval Petroleum Reserve, and the Alaska Power Marketing Administration. Passed by the House and awaiting action in the Senate is legislation to privatize the government's National Helium Reserve in Texas. Although final transfer prices remain to be determined, the estimated revenues to the federal treasury from these four sales will be several billion dollars.

In addition to these asset sales, this Congress has initiated many contracting out opportunities which will allow the government to provide better services at lower costs. During the first session, for example, Congress enacted legislation to contract out the Internal Revenue Service's debt collection efforts, the General Services Administration's commercial real estate brokerage functions, the special forecasting functions of the National Weather Service, and selective map-making functions throughout the federal establishment.

Perhaps encouraged by the more favorable privatization environment in Congress, the Clinton Administration dusted off and improved a Reagan Administration proposal—called Fed Co-Op—to set in motion an employee buyout of the background investigations functions previously provided by the U.S. Office of Personnel Management. Involving approximately 700 federal employees, and structured as an employee stock ownership plan with a projected 90 percent employee ownership share, the transfer is scheduled to take place in mid-July. Unfortunately, there are concerns that some House lawmakers may attempt to thwart it in an effort to preserve the civil service status quo.

² Judith Havemann and Barbara Vobejda, "As Welfare Cases Drop, Politicians Fight for Credit; But Experts Say Reasons for Decline Are Unclear," *The Washington Post*, May 13, 1996, p. A1. See also Lawrence Mead, Ph.D., *The Decline of Welfare in Wisconsin*, Wisconsin Policy Research Institute, March 1996.

³ See *Management of the United States Government* FY 1989 (Washington, D.C.: U.S. Government Printing Office, January 1988), pp. 111-112, for a description of proposal.

More generally, Congress included in this year's defense authorization bill (Section 357 of P.L. 104-106) language that mandates a more systematic appraisal of contracting opportunities within the Department of Defense (DOD). Although Defense has been one of the few government agencies to take advantage of contracting opportunities, much more could be done. DOD estimates that its cost savings through contracting have averaged 31 percent on contract competitions between 1978 and 1994, and that the savings now total nearly \$1.5 billion per year.

OTHER POLICY CHANGES

Both the telcommunications and agriculture sectors of the economy were the targets of significant legislative reforms that will place more responsibility and decision making in the hands of private participants operating in the competitive marketplace. And just getting underway in Congress are a series of efforts to overhaul the federal government's involvement in virtually all facets of America's national and local transportation systems. Perhaps indicative of the shape this effort will ultimately take are some innovative pieces of legislation that have been or soon will be introduced in Congress. These include prospective legislation that would devolve much of the federal highway program to the states, as well as existing legislation that would privatize the airports, transfer Amtrak responsibilities to regional compacts created by the states, and remove the trouble-plagued Federal Aviation Administration from the Department of Transportation.

THE UNFINISHED BUSINESS

As impressive as this Congress's performance was, it has only made a dent in the massive waste and redundancy that pervades the federal government. As noted earlier, largely untouched were the costly entitlement programs for welfare, Medicaid, and Medicare. These should be revisited during the FY 1997 budget process and should be campaign issues at all levels of government.

Furthermore, opportunities for extensive and cost-saving privatization remain, with the four power marketing administrations prime candidates for commercialization and self-sufficiency. Potential revenues to the government from their sale have been estimated at between \$8 billion and \$20 billion. Other areas for privatization include all facets of government's role in the transportation sector, including airports, air traffic control, highways, mass transit, and Amtrak. And building on the progress described earlier, Congress and the Administration should be more aggressive in seeking contracting opportunities to improve service at reduced costs. As noted in a Heritage study published last year, budgetary savings of at least \$9 billion per year could be achieved through contracting.

Finally, and notwithstanding the impressive reforms made in the thousands of discretionary government programs, much more could and should be done. Savings of an additional \$20 billion should be the goal of the FY 1997 budget. As a casual reading of the hundreds of reports produced by the government's Inspectors General reveals, waste and mismanagement are still pervasive throughout the federal establishment and have largely survived the first round of budget cuts. Indeed, there is recent evidence to suggest that in response to budget cuts, government bureaucracies have engaged in the traditional "Washington Monument" ploy — cut services to the public instead of making efficiencies in program overhead.

⁴ U.S. Department of Defense, Improving the Combat Edge Through Outsourcing, March 1996, p. 7.

⁵ Douglas A. Houston, Federal Power: The Case for Privatizing Electricity, Reason Foundation, March 1996, p. 26.

⁶ Ronald D. Utt, "Cutting the Deficit and Improving Services by Contracting Out," Heritage Foundation *Backgrounder* No. 1022, March 10, 1995.

For example, the National Park Service has been highly resistant to the use of contractors to provide routine services such as entrance fee collection, janitorial work, and campground management, preferring instead to use more costly uniformed personnel to perform these services. As a result, and in response to limits placed on the growth of its budget, the Park Service has announced a series of service cutbacks in the form of reduced hours and closed campgrounds just as vacation season is getting underway. Such bureaucratic games should not be tolerated by Congress. Lawmakers should require the Park Service to seek savings through management efficiencies rather than service cutbacks.

CONCLUSION

The record of the last year's budget battle clearly demonstrates that, although the tactical victory may belong to the President, the strategic victory belongs to the 104th Congress. Many of its members, particularly the freshmen, arrived in Washington with an electoral mandate to cut the budget. It was a mandate they honored, and in doing so they accomplished the first reduction in discretionary spending since 1969.

APPENDIX

PROGRAMS ELIMINATED IN THE FY 1996 BUDGET

Transportation

Highway demonstration projects (\$352 million)

Local rail freight assistance (\$17 million)

Interstate Commerce Commission (after Jan.1) (\$15.4 million)

Coast Guard buoy replacement project (\$8.5 million)

Coast Guard 82-foot WPB capability replacement (\$4 million)

Coast Guard HH-65 helicopter gearbox upgrade (\$2.5 million)

Coast Guard GPS 2nd District (\$2.4 million)

FAA "Quality through partnership" program (\$1.79 million)

FAA NAS management automation program (\$2 million)

FAA traffic management system (\$10.8 million)

FAA Digital BRITE display (\$5.5 million)

FAA remote maintenance monitoring system upgrade (\$3 million)

FAA Integrated network management system (\$300,000)

FAA precision runway monitors (\$1.2 million)

FAA future airway facilities technologies (R&D) (\$3.4 million)

FAA general aviation renaissance (\$1 million)

Federal Hwy. Admin. OJT/supportive svcs. (\$5 million)

FHWA ITS advanced technology applications (\$10 million)

FHWA ITS priority corridors (\$10 million)

Agriculture

Cattle Tick Eradication Program, Food Stamp Program (\$12.5 million)

Closed 3 Agriculture Research Svc. laboratories (\$1 million)

Eliminated 26 research grants (\$4.7 million)

Nutrition Education Initiative, Extension activities (\$4.3 million)

Treasury-Postal Service

Advisory Commission on Intergovt. Relations (\$216,000)

Administrative Conference of the U.S. (\$1.2 million)

Treasury Special Forfeiture Fund (\$45 million)

IRS Tax Compliance (\$405 million)

OPM Federal Quality Institute (\$800,000)

OPM International Affairs Office (\$140,000)

OPM Research Office (\$2.2 million)

OPM Job Information (\$2.5 million)

OPM Occupational Testing (\$14.4 million)

Legislative Branch

Office of Technology Assessment (\$18.4 million)

U.S. Code subscriptions for Members (\$420,000)

House Parking Lot 6 (\$238,000)

Warehouse at 120 Canal St., SE (\$181,000)

Historical Society calendars for Members (\$850,000)

Folding Room (privatized) (\$6.1 million)

Barber Shop (privatized) (\$148,000)

Ended taxpayer-subsidized flag office (\$324,000)

Energy and Water

Gas Turbine Modular Helium Reactor (\$20.7 million)

Russian replacement program (\$5 million)

Technology Partnership program (\$3 million)

In House Energy Mgmt. (\$31.3 million)

Water Conservation Challenge Partnerships (\$9 million)

Energy/Water Product Efficiency Standards (\$450,000)

Construction Prod. Advancement Research Program (\$6 million)

Nat'l Assessment of Water Supply Demand & Avail. (\$3 million)

Nat'l Spacial Data Infrastructure (\$2 million)

Dredging Oper. and Environmental Research (\$3 million)

Water Operations Tech. Support Program (\$1.5 million)

River Confluence Ice Research (\$1 million)

Natural Resources Technical Support (\$1.6 million)

Environmental Review Guide for Operations (\$1.5 million)

Reinvested User Fees for Recreation Improvements (\$5 million)

Real Time Water Control Research Program (\$850,000)

Interior

Bureau of Mines (\$30 million)

Emergency Preparedness (DOE) (\$8 million)

Pennsylvania Avenue Development Corp. (\$7 million)

Urban park and recreation fund (\$6 million)

State grants/land and water conservation fund (\$25 million)

Business enterprise development grants (\$2 million)

Indian direct loan program (\$1 million)

Navajo rehabilitation trust fund (\$2 million)

Rural abandoned mine program (RAMP) (\$8 million)

Advanced computational technology initiative (\$10 million)

Coalbed methane program (\$2 million)

Planar solid oxide fuel cells program (\$3 million)

Mild gasification process development unit (\$4 million)

Gasifier improvement facility (\$4 million)

Advanced absorption fluids (\$1 million)

Microcogeneration (\$2 million)

Lighting collaboratives (\$1 million)

Federal energy efficiency fund (\$7 million)

Cool communities (\$2 million)

Training for commercial building operators (\$2 million)

Pressure calciner project (\$2 million)

Aluminum spray forming (\$3 million)

Advanced fluid catalytic cracker (\$2 million)

Food, textiles and agriculture program (\$1 million)

Grants to industrial associations (\$1 million)

Industrial assessments (\$1 million)

CNG absorbent systems and tank design (\$1 million)

Federal fleet vehicle acquisitions (elim. central DOE fund) (\$20 million)

Collaborative effort with DOT on crash behavior (\$1 million)

Automotive piston technologies (\$5 million)

Locomotive fuel cell program (\$1 million)

Fuel cells for buses (\$3 million)

Integrated resource planning (utility sector programs) (\$9 million)

VA-HUD, Independent Agencies

Chemical Safety and Hazards Investigation Board (\$500,000)

Public Housing Development (\$598 million)

Enterprise Zone Homes (\$50 million)

Pension Fund Partnerships (\$350 million)

Flexible Subsidy Fund (\$50 million)

Neighborhood Development (\$5 million)

Community Adjustment Planning (\$2 million)

Congregate Housing (\$25 million)

Project Based Service Coordinators (\$22 million)

Economic Development Initiative (\$350 million)

Joint Community Development (\$6 million)

Lease Adjustments (\$22 million)

Loan Management (\$150 million)

Public Housing Coordinators (\$30 million)

Service Coordinators (\$30 million)

GLOBE (Global Learning & Observation to Benefit the Env.) (\$1 million)

Commerce, Justice, State

U.S. Travel and Tourism Administration (\$14 million; \$2 million left for closeout costs)

GLOBE (Global Learning & Observation to Benefit the Env.) (\$7million)

Non-point Pollution Source Control grants (\$5 million)

Endowment for Children's Educational Television (\$2.5 million)

Contributions to U.N. Industrial Dev. Organization (\$28 million)

Competitive Policy Council (\$1 million)

Labor, HHS (House eliminations)

Department of Labor

Employment and Training Administration

Youth Fair Chance (\$24 million)

Rural Concentrated Employment (\$3.8 million)

JTPA Concentrated Employment (\$6 million)

National Commission for Employment Policy (\$2.2 million)

American Samoans (Training & Employment Services) (\$5 million)

Microenterprise Grants (\$2.25 million)

National Center for the Workplace (\$1.1 million)

Office of the American Workplace Departmental Management (\$7.4 million)

Department of Health and Human Services

Public Health Services

State Offices of Rural Health (\$3.9 million)

Trauma Care- Public Health Service (\$4.7 million)

Native Hawaiian Health Care (\$4.5 million)

Substance Abuse and Mental Health Services Administration

Community Support Demonstrations - Substance Abuse & Mental Health Services

Admin. (\$24 million)

Homeless Service Demonstrations (\$21 million)

Treatment Grants to Crisis Areas-Substance Abuse Services (\$35 million)

Treatment Demonstrations/Criminal Justice Programs (\$37.5 million)

Treatment Demonstrations/Critical Populations (\$23.5 million)

Comprehensive Comm. Treatment Program-Substance Abuse Services (\$27 million)

Substance Abuse Svcs. Training (\$5.5 million)

High Risk Youth - Prevention Demonstrations (\$65 million)

Other Programs-Prevention Demonstration (\$6.6 million)

Community Partnerships (\$114 million)

Prevention Education/Dissemination (\$13.4 million)

Prevention Education/Training (\$16 million)

Assistant Secretary for Health

Office of Disease Prevention & Health Promotion (\$4.6 million)

Emergency Preparedness (\$2.1 million)

Health Care Reform Data Analysis (\$2.7 million)

Health Service Management (\$18.4 million)

Health Care Financing Administration

Counseling Program (\$10 million)

Essential Access Community Hospitals (\$3.5 million)

New Rural Health Grants (\$1.7 million)

Administration for Children and Families

Civics & English Education Grants (\$6 million)

Child Development Associate Scholarships (\$1.3 million)

Runaway Youth Activities (\$14 million)

Youth Gang Substance Abuse (\$10.5 million)

ABCAN (\$288,000)

Dependent Care/Planning & Development (\$13 million)

Child Welfare Research (\$6.3 million)

Social Services Research (\$15 million)

Family Support Centers (\$7 million)

Rural Housing (\$2.9 million)

Farmworker Assistance (\$3 million)

Demonstration Partnerships (\$7.9 million)

Administration on Aging

Pension Counseling (\$1.9 million)

Federal Council on Aging (\$176,000)

White House Conference on Aging (\$3 million)

Department of Education

State School Improvement (\$27 million)

School Improvement Programs

Education Infrastructure (\$35 million)

Law Related Education (\$5.8 million)

Christa McAuliffe Scholarships (\$1.9 million)

Women's Educational Equity (\$3.9 million)

Dropout Prevention Demonstrations (\$28 million)

Training in Early Childhood (\$13 million)

Family and Community Endeavor Schools (\$11 million)

Bilingual and Immigrant Education

Support Services (\$14 million)

Professional Development (\$25 million)

Special Institutions

Endowment Grants-National Tech. Institute for the Deaf (\$336,000)

Construction-National Tech. Institute for the Deaf (\$150,000)

Endowment Grants-Gallaudet University (\$1 million)

Vocational and Adult Education

Community Based Organizations (\$9 million)

Consumer and Homemaker Education (\$34 million)

State Councils (\$8.8 million)

Demonstrations-National Programs (\$20 million)

National Occupational Info. Coord. Committee (\$6 million)

Evaluation & Technical Assistance-Adult Education (\$3.9 million)

National Institute for Literacy (\$4.8 million)

Workplace Literacy Partnerships (\$18 million)

Student Financial Assistance

State Post-Secondary Review Program (\$20 million)

Higher Education

Endowment Grants (\$6 million)

HBCU Set-aside (\$2 million)

Evaluation (\$1 million)

Native Hawaiian & Alaska Native Cultural Arts (\$1 million)

Eisenhower Leadership Program (\$4 million)

Innovation Projects in Community Service (\$1.4 million)

Cooperative Education (\$6.9 million)

Student Financial Aid Database (\$496,000)

National Science Scholarships (\$4.4 million)

National Academy of Science, Space & Technology (\$2 million)

Douglas Teacher Scholarships (\$14.5 million)

Olympic Scholarships (\$1 million)

Teacher Corps (\$1.8 million)

Harris Scholarships (\$20 million)

Faculty Development Fellowships (\$3.7 million)

School, College and University Partnerships (\$3.8 million)

Legal Training for the Disadvantaged (\$2.9 million)

Howard University

Regular Program-Endowment Program (\$3.5 million)

Clinical Law Center-Endowment Program (\$5.5 million)

Research (\$4.6 million)

Construction (\$5 million)

College Housing & Acad. Facilities Loans (\$1 million)

Education Research, Statistics & Improvement

21st Century Learning (\$750,000)

National Diffusion Network (\$14 million)

Libraries

Library Literacy Programs (\$8 million)

Department Management

National Board of the Fund for the Improv. of Post Secondary Ed. (\$128,000)

President's Ad. Comm. on Ed. Excellence for Hispanic Am. (\$286,000)

Related Agencies

Vista Literacy Corps-Domestic (\$5 million)
Senior Demonstration Program (\$1 million)
National Ed. Standards & Improvement Council (\$2 million)

Source: House Appropriations Committee, April 1996.