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Clinton Takes Undeserved Credit for Congress's Deficit Reduction

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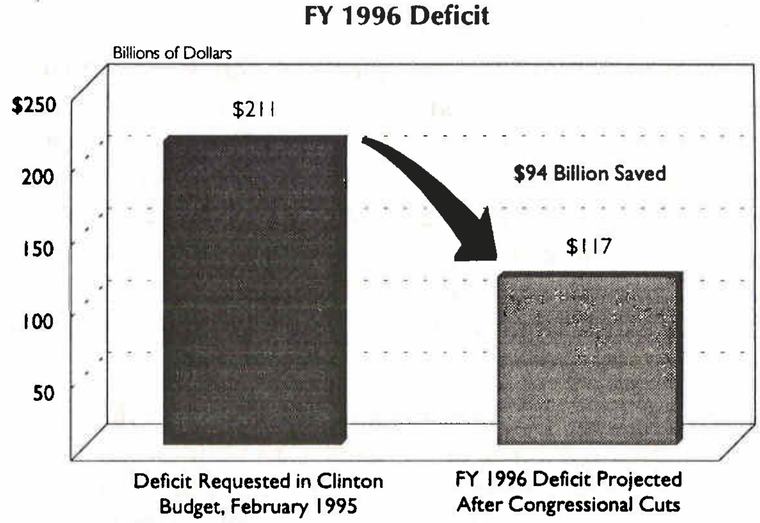
After nearly 18 months of trying to block congressional efforts to enact a seven-year plan to balance the federal budget, President Bill Clinton is now jumping to take credit for the recent news that the FY 1996 deficit will fall to $117 billion—some $29 billion below the Office of Management and Budget's March estimate and the lowest dollar level since 1981. But not only is the falling deficit none of Clinton's doing; the record shows that he repeatedly blocked Congress's efforts to enact an honest long-term plan to balance the federal budget.

Chart 1

Clinton Claims Undeserved Credit for Cutting FY 1996 Deficit



Source: Congressional Budget Office, Office of Management and Budget

Clinton's claim is especially surprising when one considers that in February 1995, he submitted an FY 1996 budget to Congress that would have raised the deficit to $211 billion, or $94 billion higher than is now expected.

It is Congress that deserves taxpayers' credit for cutting Clinton's proposed $211 billion FY 1996 deficit nearly in half. This happened because Congress rejected Clinton's plan and acted to curb spending. According to Congressional Budget Office predictions, the Clinton policies would have perpetuated $200 billion-plus deficits well into the next century. Furthermore, had Clinton not vetoed Congress's Balanced Budget Act of 1995, which included $17 billion in entitlement savings for FY 1996, this year's deficit actually would be less than $100 billion rather than the $117 billion for which Clinton now claims credit.

But this has been the White House's pattern throughout the budget battle with Congress: First block congressional initiatives, then claim credit for the good news. Since Clinton sent his budget-busting FY 1996 budget to Capitol Hill, he has proposed seven "balanced budget plans." Each of these plans—including Clinton's FY 1997 budget—proposed higher spending and higher taxes, and as a result, each would have added more to the national debt than the balanced budget plans produced by Congress.

There are a variety of reasons the deficit is now $173 billion lower than its peak of $290 billion in 1992. Clinton policies, however, generally are not among them. Some of the factors:

✓ **Domestic discretionary cutbacks pushed by Congress.** Although Clinton blocked the entitlement reforms embodied in the Balanced Budget Act of 1995, Congress was able to reverse the growth of discretionary—or annually appropriated—spending. Thanks to congressional pressure for program terminations and major cuts, FY 1996 discretionary spending will experience its first decline since 1969.[1] More than 270 separate programs, offices, agencies, projects, and divisions were eliminated completely. Many other programs, such as the National Endowment for the Arts, the Appalachian Regional Commission, and the Legal Services Corporation, were cut by more than one-third.

✓ **The turnaround in the savings and loan program.** A significant contributor to the soaring deficits under George Bush was the high taxpayer cost of bailing out failed savings and loan institutions. In FY 1991, for example, $66 billion in taxpayer-financed bailout costs was added to the federal deficit. In FY 1992, these costs totaled $2.6 billion. This year, however, this program is expected to bring in over $15 billion in new revenue to the Treasury as assets acquired during the bailout are sold to the private sector. Between FY 1992 and FY 1996, this budgetary reversal (from a program adding to the deficit to one reducing the deficit by generating revenues) amounts to an $18 billion swing in the deficit—10 percent of the deficit change between FY 1992 and FY 1996.

✓ **New revenues from selling the electromagnetic spectrum.** The White House currently estimates that the Federal Communications Commission (FCC) auction of telecommunications spectrum to private industry will generate over $10 billion in new revenues in FY 1996. These new revenues are considered "offsetting collections." This means they are subtracted from the expenditures column of the federal register rather than added to the tax revenue column, thus giving the appearance that federal spending is lower than it actually is. In 1992, when the deficit reached its record level, the government did not auction telecommunications spectrum; it simply gave it away at no cost, and therefore at no benefit to the Treasury. Clinton is reaping this windfall.

✓ **Defense cutbacks.** The White House now estimates the government will spend roughly $266 billion on national defense in FY 1996—$37 billion less than in FY 1992. These cutbacks, initiated by the Bush Administration, reflect the fall of the Soviet Union. Under the Clinton Administration, defense spending has fallen to roughly 3.6 percent of gross domestic product (GDP) and less than 17 percent of overall federal spending. Both levels are lower than at any point since before World War II. By contrast, when the young Bill Clinton had his picture taken with President John F. Kennedy in the White House Rose Garden, defense consumed 50 percent of all federal spending and about 10 percent of the nation's economy.

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1 See Ronald D. Utt, "How Congress Won the Budget War," Heritage Foundation *F.Y.I.* No. 109, June 17, 1996.

Combined, the last three items alone account for $65 billion, or 38 percent, of the overall drop in the deficit since 1992.

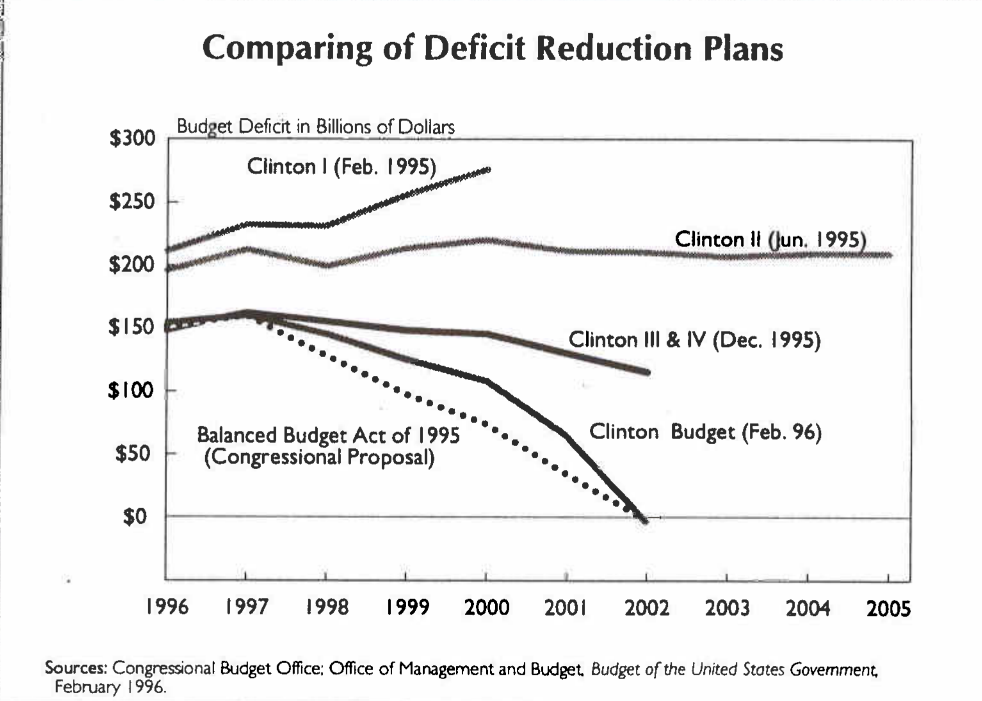
A Tax Revenue Windfall. OMB currently projects that tax revenues will total $1.453 trillion in FY 1996, nearly $27 billion higher than was estimated in March. It appears that these new tax collections are a one-time windfall rather than a sign of improved economic conditions. According to OMB, "the Administration believes that most of this increase comes from higher-than-anticipated collections of non-withheld individual income taxes." In other words, it is possible that this windfall is the result of investors cashing in on capital gains because of the rise in the stock market and the possibility of an agreement between Congress and the White House on a cut in the capital gains tax.

The rise in tax collections from the doldrums of the Bush recession is a significant factor in the declining deficit. Since 1992, tax revenues have grown by $363 billion, or one-third. During the Bush recession, however, tax revenues grew an average of only 3.8 percent per year, half the average annual growth rate between 1948 and 1996. The combined effect of tax collections returning to their historic year-over-year growth rates and Congress keeping federal spending from growing faster than these new collections has made a significant dent in the deficit picture.

CLINTON'S RHETORIC VERSUS REALITY[2]

Clinton's record throughout the budget debate with Congress stands in stark contrast with his public rhetoric. At every turn during the past 18 months, Clinton stood in the way of smaller government and real long-term deficit reduction. The record is clear:

Chart 2



Sources: Congressional Budget Office; Office of Management and Budget, *Budget of the United States Government*, February 1996.

Clinton Budget #1:

In February 1995, the Clinton Administration responded to the 1994 election results by presenting a status-quo FY 1996 budget to the new Congress. This budget deviated little from "baseline" forecasts which projected $200 billion deficits through the end of the decade.

2 This section is taken largely taken from Stuart M. Butler and Kim R. Holmes, eds., *Issues '96: The Candidate's Briefing Book* (Washington, D.C.: The Heritage Foundation, 1996).

According to the CBO, the President's February budget would have increased the deficit from an estimated $177 billion in 1995 to $276 billion in 2000. Spending would grow an average of 5 percent per year, some $422 billion in all in just five years. On May 19, 1995, the Senate defeated Clinton's budget plan by a vote of 99 to 0.

Clinton Budget #2:

On June 13, 1995, after months of criticizing congressional balanced budget efforts while offering no plan of his own, Clinton presented a second budget plan which he claimed balanced the budget in ten years, by FY 2005. This plan, barely 30 pages in length, fared no better than Clinton's first effort under CBO scrutiny. According to CBO, in addition to not balancing the budget, it would have produced $200 billion deficits for at least the next ten years.

Due to revised economic forecasts, the Administration later said that this plan would balance the budget in nine years. However, the CBO maintained that it would never have balanced the budget. Indeed, CBO found less than $400 billion in legitimate deficit reduction in this Clinton offer—$350 billion short of the total seven-year deficit reduction in the Balanced Budget Act.

Clinton Budget #3:

On December 7, the day Clinton vetoed the Balanced Budget Act of 1995, he presented yet a third budget plan. The Administration claimed that this plan also would balance the budget in seven years but was more in line with the President's priorities than the one he had vetoed.

Once again, CBO found that the Administration's numbers failed to reach a balanced budget by 2002. While this budget plan proposed larger savings from discretionary spending programs and welfare reform compared to the June budget, it also proposed smaller savings in Medicare and Medicaid. In total, Clinton's third budget produced only $385 billion in credible deficit reduction over seven years—$365 billion short of the savings achieved by the BBA he had vetoed. Moreover, according to the CBO, instead of balancing the budget in FY 2002 as advertised, it would leave a deficit of $115 billion in that year.

Clinton Budget #4:

On December 15, after two weeks of negotiations with congressional leaders, Clinton presented a fourth budget plan. But this plan was mostly an iteration of Budget Plan #3 and contained no new policy recommendations.

The CBO scored this plan as still $69 billion out of balance in FY 2002. The Administration tried to make up its shortcomings in reducing the deficit by challenging CBO technical and economic estimates. The Administration had been arguing for weeks that CBO's economic assumptions were too conservative and thus required excessively deep spending cuts to balance the budget. In making this argument, the Administration wanted to have it both ways. While claiming that it wanted to balance the budget, it actually wanted to spend more money as the budget was moving toward balance.

On December 18, 1995, the House defeated this plan by a vote of 412 to 0.

Clinton Budget #5:

On January 6, 1996, Clinton presented a fifth budget plan. This plan, largely adapted from a proposal by Senate Democrats, was certified by CBO to balance the budget in seven years, at least on paper. Though it mathematically balances the budget in seven years, however, the fifth Clinton budget fell far short of being a credible plan. The reasons:

Most of the heavy lifting of deficit reduction was required in the two years *following* the end of Clinton's possible second term as President. Indeed, 62 percent of the plan's $583 billion in deficit reduction falls in FY 2001 and FY 2002. For example, the plan called for $102 billion in

Medicare savings over seven years, but 63 percent of these savings were to come in the last two years. Similarly, the plan called for $37 billion in discretionary spending cuts beyond the savings needed to achieve a "hard freeze" in these programs, yet 95 percent of these additional savings fell in the last two years of the plan.

While the fifth Clinton budget plan called for $87 billion in gross tax cuts ($17 billion in net tax cuts) over seven years, these cuts were sunsetted in FY 2001—one year before the budget was to be balanced. This means taxes would have to be raised. Mathematically, such a ploy "boosts" tax revenues by at least $15 billion in FY 2002 and thus requires fewer spending cuts to achieve a balanced budget. The overall size of the tax cut proposal was reduced by the plan's call for $60 billion in new revenue from closing "corporate loopholes." Some 43 percent of the revenues generated from these tax hikes would be received in FY 2002.

Clinton Budget #6:

The sixth Clinton budget was submitted on January 9. This plan moved only slightly beyond the previous plans, modestly increasing the proposed savings from Medicare, Medicaid, and welfare reform while slightly boosting the size of the tax cuts. Overall, this Clinton plan would produce nearly $160 billion less in budget savings and nearly $70 billion less in deficit reduction than the last congressional offer. Moreover, the White House still avoided the fundamental reforms in Medicare, Medicaid, and welfare needed to achieve budget savings and restructure the programs.

Clinton Budget #7

The seventh Clinton plan was submitted to Congress on January 18. This budget plan was essentially identical to the January 9 plan except that it substantially increased the amount of new revenues it would generate from closing "corporate tax loopholes" and other such devices. Because of these new revenues, the net size of the tax cut would have been reduced to a mere $36 billion over seven years.

Clinton Budget #8: The FY 1997 Budget

Like the seven budget plans that preceded it during the past year, the FY 1997 Clinton budget, presented to Congress February 5, would have forced hard-working Americans to pay higher taxes in exchange for more spending on programs which have become old and obsolete, or which are ripe for termination, privatization, or transfer to state control. Indeed, compared with the FY 1997 budget resolution passed by Congress in May, Clinton's FY 1997 budget would mean nearly $1,500 in higher taxes and $3,500 in higher spending for every household in America over the next six years. Moreover, the Clinton plan ignores the fundamental problems facing the government's major entitlement and welfare programs. Clinton has shirked his responsibility to address, for instance, a Medicare program facing insolvency, a Medicaid program that is bankrupting state budgets, and a welfare system that perpetuates a culture of poverty.

CONCLUSION

Repeated gimmicks and ploys such as these indicate that the Clinton Administration probably never has been serious about reaching a balanced budget agreement with Congress. At every turn, President Clinton has fought attempts to cut spending—or even to reduce the growth rate of spending. Incredibly, Clinton now claims credit for reducing the deficit to a 15-year low when, in fact, it would have been lower had he not vetoed Congress's Balanced Budget Act of 1995. The truth is that Congress deserves credit for reversing Clinton policies which would have perpetuated a $200 billion deficit into the next century. The record is clear: Bill Clinton prefers keeping money in the hands of Washington bureaucrats to keeping it in the pockets of American taxpayers.