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THE ROAD TO A BALANCED BUDGET IS PAVED WITH MORE SPENDING, BIGGER DEFICITS

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Contrary to the way some lawmakers are portraying the 1997 balanced budget agreement, the accord is not a five-year plan to balance the federal budget. It is a plan for three years of higher spending and bigger deficits followed by two years of sharp deficit reduction during the next Administration and future Congresses. Were it not for the three years of higher spending, the budget actually could be in surplus by FY 2000 rather than FY 2002, and taxpayers still could be given $135 billion in gross tax cuts.

Based on the current economy, the Congressional Budget Office (CBO) now estimates that the current fiscal year's deficit will shrink to a 17-year low of $67.2 billion. With this starting point and a little dose of fiscal discipline, Congress could erase the deficit—while cutting taxes—in just three years. Instead, the White House and congressional leaders have chosen to postpone a balanced budget in order to pump billions of dollars in new spending into favored federal programs—with the promise of cuts in future years.

In the first year of the plan, according to the House and Senate budget committees, the deficit will jump nearly 35 percent compared with this year's level—some $23.2 billion—to $90.4 billion.[1] Beyond FY 1998, as shown in Chart 1, the deficit will fall only $700 million in FY 1999 and a modest $6.7 billion in FY 2000, according to the budget committees. Only in the last two years of the plan does any meaningful deficit reduction occur. In fact, 72 percent of the deficit reduction occurs in the last two years of the plan.

The reason the deficit balloons in the first three years of the plan is not the tax cuts, as some argue. Rather, it is because the budget deal fails to control federal spending during these years, leaving the heavy lifting of spending control until FY 2001 and FY 2002.

1 This is, of course, an estimate by the budget committees. A forthcoming Heritage Foundation study will forecast the budget plan using the WEFA econometric model.

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Indeed, compared with this fiscal year's level, total federal spending will jump more than $70 billion in FY 1998—an increase of 4.3 percent, or nearly 150 percent above the CBO's forecasted inflation rate for next year. The budget deal delivers only $7.4 billion in "net" tax relief next year—just one-tenth of the amount of increased spending for the year.

As Chart 2 shows, because of the plan's up-front spending increases, the annual growth of federal spending remains well above the rate of inflation until FY 2001, when the growth of total spending will slow to 2.6 percent—just 0.3 percentage points below the rate of inflation. Only in FY 2002, the last year of the plan, will the growth in spending slow to a modest 1.6 percent annual rate. As a result, the plan projects the deficit to fall by a whopping $54.7 billion in the last year alone, thus producing a modest surplus of $1.3 billion.

Considering that the budget deal "front-loads" the new spending and "back-loads" the real deficit reduction, the questions lawmakers must now ask are: (1) Will the sharp spending reductions starting three years from now actually materialize, and (2) how fast could the budget be balanced if federal spending were not increased so dramatically during the first three years of the deal?

The answer to the first question depends on one's confidence that future Congresses will be far more determined to cut spending than this one is. Confidence is hardly raised by the fact that one of the first things this deal would do is suspend the spending controls contained in the last "historic budget agreement" enacted in 1993.

The answer to the second question is simple: just three years. Chart 1 shows that if the budget deal controlled total federal spending as well in the first two years (2.6 percent growth in FY 1998 and 1.6 percent in later fiscal years) as well as it does in the last two years, the budget not only would be in balance in FY 2000, but also would deliver a modest surplus of $10 billion. Moreover, this scenario assumes that the $85 billion in net tax cuts will be delivered in full. This option does not require massive "cuts" in federal spending just slowing the annual growth. In fact, total federal spending would still be nearly $100 billion higher in FY 2000 than it is today.

The 1997 balanced budget agreement contains a two-year plan to balance the budget that should be implemented now, not after an increase in spending and three more years of adding to the projected deficit. Lawmakers have a golden opportunity to take advantage of a growing economy that has reduced the federal deficit to its lowest nominal dollar level since 1979. All they need to do is begin today to put the brakes on the growth of total spending instead of waiting until after the turn of the next century to do so.

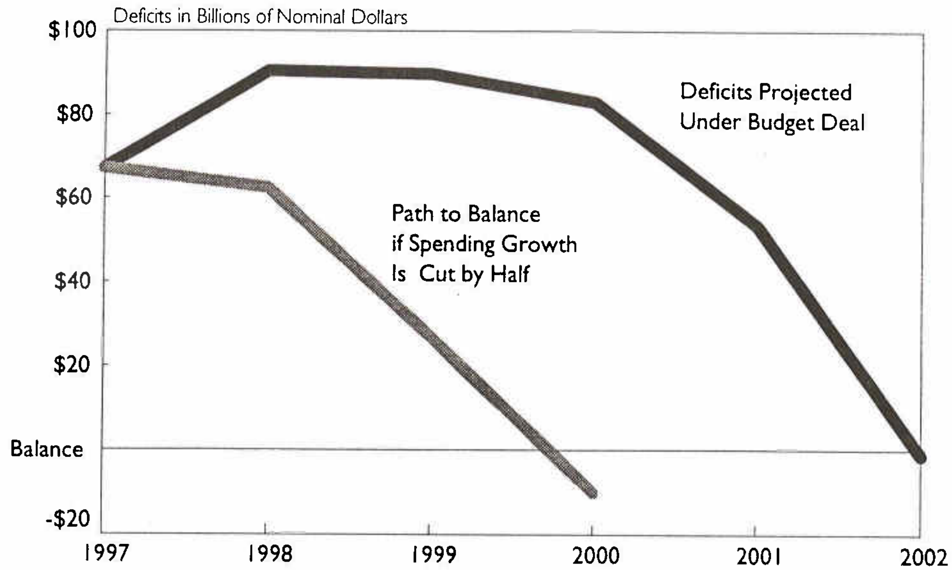
Chart 1
New Spending in Budget Deal Puts Off Balanced Budget
Deficits in Billions of Nominal Dollars
$100
$80
$60
$40
$20
Balance
-$20
1997
1998
1999
2000
2001
2002
Deficits Projected
Under Budget Deal
Path to Balance
if Spending Growth
Is Cut by Half
Source: Heritage calculations, based on House and Senate Budget Committee estimates

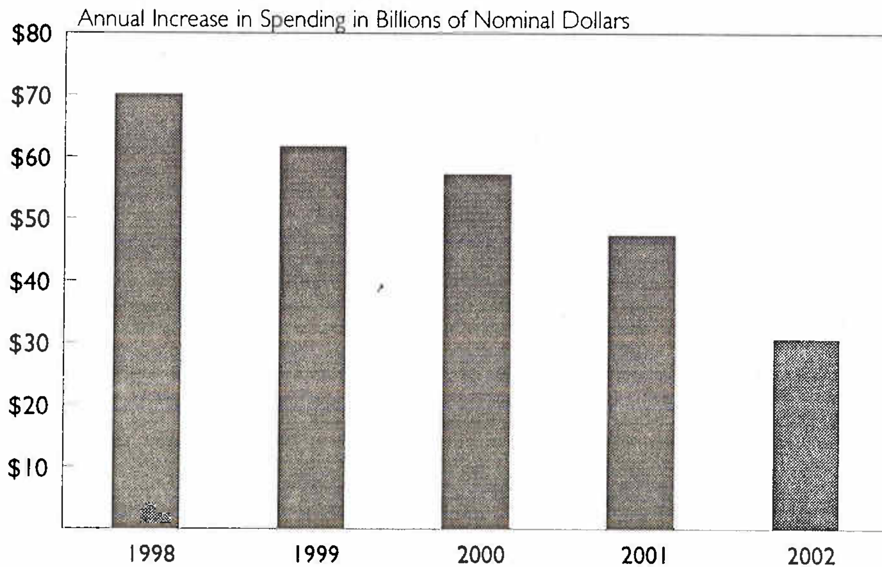
Chart 2
Spending Not Under Control Until Three Years Into Budget Deal
Annual Increase in Spending in Billions of Nominal Dollars
$80
$70
$60
$50
$40
$30
$20
$10
1998
1999
2000
2001
2002
Source: Heritage calculations, based on House and Senate Budget Committee estimates