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Why Congress Must Preserve the Spending Caps

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The prospect of a balanced federal budget has eroded Congress's already shaky commitment to fiscal discipline. Less than one year after lawmakers enacted the Balanced Budget Act of 1997 (BBA 1997), many powerful Members of Congress seem poised to join with President Bill Clinton in disavowing one of the act's key elements—the statutory caps placed on discretionary spending—because the law inconveniently stands in the way of an array of new spending initiatives in an election year.

Today's rosy budget picture is the temporary result of a healthy economy producing a huge windfall of new tax revenues into the Treasury. Weakening spending controls now would risk huge deficits whenever the economy slows. Responsible Members of Congress should block this effort to renege on last year's contract with U.S. taxpayers. The fact that the federal budget may balance ahead of schedule is irrelevant.

Breaching the spending caps would be fiscally irresponsible at a time in which domestic discretionary spending continues to grow and large numbers of wasteful programs are allowed to continue. No less irresponsible would be attempts by Congress to follow President Clinton's lead and use gimmicks and budgetary sleight-of-hand to remain in "technical" compliance with the law. Congress must resist the President's efforts to end the "era of big government" by ushering in the "era of *bigger* government."

Higher Than Carter-era Levels. Domestic discretionary spending for fiscal year 1998 is $268.6 billion—higher than any level during the Carter Administration after adjusting for inflation. Remarkably, during the 1980s, President Ronald Reagan cut real domestic discretionary spending by 15 percent before "spending caps" were enacted. (Reagan's cuts took effect long before the Gramm–Rudman deficit reduction act was enacted.) But since Reagan left office, domestic discretionary spending has jumped 23 percent in real terms, even though "spending caps" have been the norm.

Creative Gimmicks to Hide New Spending. President Clinton's fiscal year 1999 budget uses gimmicks to "comply" with the discretionary caps. The President proposes more than $56 billion in new discretionary spending above the caps over the next five years but offsets these increases with a combination of mandatory program "cuts" and higher tax revenues. These new revenues include $25.3 billion from the proposed tobacco settlement, $7.4 billion from extending the expired Superfund tax, and $6 billion from new Federal Aviation Administration fees.

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Congress also seems prepared to borrow another idea from President Clinton's budget—reclassifying discretionary programs as "mandatory" spending. For no sound reason other than to spend more money, President Clinton's budget proposes to shift funding for the St. Lawrence Seaway and Coast Guard Boat Safety program, among others, from the discretionary to the mandatory category of the budget. According to press reports, lawmakers are considering an even bolder proposal to reclassify a discretionary Veterans Administration program to a mandatory program and thus "free" $18 billion in discretionary spending under the caps for new highway funding.

Even though reclassifying these programs many not have a major budgetary impact, because "Pay-As-You-Go" rules require the costs of these "new" entitlements to be offset by reductions elsewhere, the real effect is to shift more spending outside the annual appropriations process, making it much more difficult to control. As it is, some 67 cents of every federal dollar spent is outside of the appropriations process.

More Spending Should Not Be the Reward for a Balanced Budget. The 1993 budget deal capped the fiscal year 1998 level of total discretionary outlays (domestic, defense, and international) at $543 billion. But in negotiating the BBA 1997, the congressional leadership agreed to increase this amount by $10 billion, to $553 billion, as a "signing bonus" to the President in exchange for his acceptance of tax cuts, "tough" spending caps, and Medicare reform. (This discretionary signing bonus does not include the new social welfare programs, such as the Welfare-to-Work program, that President Clinton also received in return.) These "tough" caps will allow discretionary spending to rise through fiscal year 2000 (peaking at $565 billion), after which the cap levels will decline modestly.

Another often-ignored signing bonus is that the BBA 1997 boosted fiscal year 1998 discretionary budget authority by $24 billion, compared with the level Congress enacted in fiscal year 1997; nearly $19 billion of this new "budget authority" was dedicated to non-defense discretionary spending. (Budget authority is the permission appropriators give agencies to commit funds, while outlays are the actual checks written to pay for those commitments.) This massive one-year boost in budget authority will create a bottleneck in future appropriations as the discretionary spending caps begin to tighten. The "shortage" of available outlays under the spending caps to pay for these and any prior commitments will prompt many in Congress to clamor for busting the caps.

Congress Must Cut Spending. Breaching the discretionary spending caps will remove the last impediment to runaway spending. Congress would be acting irresponsibly if it breached the spending caps, considering the vast number of wasteful, duplicative, outmoded, and dysfunctional programs identified by government watchdogs that continue to be funded year after year. Hundreds of these programs were not even authorized, but received money anyway. Examples for fiscal year 1998 include the Appalachian Regional Commission ($186 million), Community Development Block Grants ($4.7 billion), the Energy Information Administration ($66 million), the National Endowment for the Arts ($99 million), and the Legal Services Corporation ($283 million).

Promises Broken. Again? Recent history shows little reason to believe Congress will keep its word this year and stay within the caps. In 1993, for example, President Clinton and the Democrat-controlled Congress broke the caps set in place by the 1990 budget deal. The 1993 caps then were breached in last year's Budget Act.

Although it seems certain that lawmakers will find some creative way of avoiding the discretionary spending caps, taxpayers should view gimmicks no differently than an outright breach. The effect is to violate the commitment Congress made with the American people when it enacted the Balanced Budget Act of 1997.

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