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Clinton's Budget Focus: More Spending, Not Debt Reduction

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"We should remember what got us to this dance was discipline, fiscal discipline."

—*President Bill Clinton, June 22, 2000*

Now that President Bill Clinton's veto pen has ended any hope of meaningful tax reduction this year, Congress has two options for what to do with the $268 billion surplus: Use it to reduce the federal debt or spend it. It is clear that as Congress tries to finish fiscal year (FY) 2001 appropriations, the President has made his choice; spending is more important than debt reduction. According to current press reports and Statements of Administrative Position, the President is threatening to veto several of the appropriations bills unless Congress increases funding for his pet projects by between $25 billion and $40 billion.

With tax cuts removed from the table as an option and new spending proposed by the White House, Congress will have to take the lead to reduce the debt burden on working American families by making sure the surplus is used for debt reduction. Blocking new spending is critically important for the nation's continued economic health, according to Federal Reserve Chairman Alan Greenspan. In testimony before the Senate Banking Committee last January, Greenspan made it clear that more spending was the worst option in deciding how to use the surplus. Indeed, he stated, "my first priority would be to allow as much of the surplus to flow through into a reduction in debt to the public....[I]f that proves politically infeasible, I would opt for cutting taxes. *And under no conditions do I see any room in the longer-term outlook for major changes in expenditures* [emphasis added]." Fortunately, a proposal now before Congress would make using the surplus for debt reduction a line item in each appropriations bill.

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In July, the Congressional Budget Office (CBO) estimated that simply restricting the growth of federal spending to the rate of inflation would yield surplus revenues of over $268 billion next year. Both Congress and the President have agreed to protect surplus revenues generated by Social Security and Medicare. Congress alone appears willing to protect up to 90 percent ($241 billion) of the total combined surplus. It would appropriate 60 percent of the $70 billion on-budget, non-Medicare surplus revenue to debt reduction, thereby preventing about $42 billion from being wasted. Although federal spending would still increase by $28 billion above the inflation-adjusted rate, President Clinton will not respect even this level of fiscal discipline.

The President may take several steps to insist that Congress fund his projects rather than pay down the debt. Specifically:

- The President may veto the energy and water appropriations bill because the House placed a $150 million limit on contractor travel after oversight hearings revealed that many government contractors made weekly trips between Washington and California at taxpayer expense.
- The President may veto the Commerce, Justice, State appropriations bill because it funds the Legal Services Corporation (LSC) at $199 million below his request of $340 million. The LSC has been criticized by the U.S. General Accounting Office for more than 5,000 cases of overbilling and double billing in 1999.
- The President may veto the Treasury/Postal appropriations bill because he strongly objects to the "deeply inadequate" funding level provided for the Internal Revenue Service ($409 million below his request). But the Senate Committee mark already provides $8.5 billion for the IRS; and the House report notes that most of the President's proposed increase goes to fund restructuring plans that are scheduled to be completed before the budget takes effect, with the remainder used for antiterrorism initiatives that duplicate Justice Department efforts.

President Clinton evidently considers such projects more important priorities than reducing the tax burden on working American families or reducing the debt. Congress can pave the way for future economic growth and tax reform by appropriating surplus revenues for debt reduction rather than spending. Paying down the national debt with surplus revenue will help lower federal interest payments and provide more room for tax reform.

The CBO estimates that the interest cost of the federal debt is 6.5 percent. Consequently, every $1 billion appropriated by Congress in additional spending requires $65 million per year appropriated for interest payments. The President's demand to increase federal spending by $25 billion to $40 billion more than Congress has already approved would require as much as $2.6 billion in extra annual interest payments.

Congress has one last opportunity to ensure that large surplus revenues are not misused in the appropriations process. The House recently passed H.R. 5173, introduced by Representative Ernest Fletcher (R–KY), which would appropriate $42 billion of the on-budget non-Medicare surplus to a new debt reduction account to be established within the U.S. Department of the Treasury. Senators Wayne Allard (R–CO), George Voinovich (R–OH), and Rod Grams (R–MN) have a similar proposal that would appropriate $241 billion of the total combined surplus to an existing debt reduction account. Although either of these proposals would set aside about 90 percent of the combined surplus for debt reduction, a group of lawmakers in the House has proposed an even more effective tactic: adding a debt reduction line item to each appropriations bill. Once the debt reduction line item has been added to a bill by the Senate or in conference committee, any increase in spending for other line items would reduce the debt reduction line item by a comparable amount. If the President vetoes these appropriations bills, he would be forced to explain to the American people why such items as giving government contractors taxpayer-funded "frequent flyer miles" are more important to him than reducing the debt burden on tomorrow's taxpayers.

In a sensible budget process, surplus revenues would be returned automatically to the taxpayers who produce them. Until the current tax system can be reformed, requiring that the surplus be used for debt reduction is a second-best option. The proposal to include debt reduction line items in each appropriations bill Congress sends to the President would make sure that sound fiscal discipline becomes a reality.

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