

THE FEDERAL BUDGET

Getting Spending Under Control

Brian M. Riedl

ACTION: Freeze non-defense discretionary spending and eliminate wasteful programs as a step toward responsible fiscal policy in 2003.

THE ISSUE IN BRIEF

The federal government is on a historic spending spree.¹ Current estimates reveal that it will have spent \$782 billion more between fiscal years (FY) 2000 and 2003 than it did between 1996 and 1999. At over \$73,000 per household, 2000–2003 is set to become the highest-spending four-year period in American history, with the exception of World War II. Taxes will eventually need to rise by over \$5,000 per household to pay for this additional spending.²

Although war, homeland security, and the recession have contributed to this \$782 billion spending increase, it was made even worse by Congress's refusal to set priorities and its insistence on additional record spending increases on farm subsidies, education, health research, and even such irrelevant and obsolete agencies as the Foreign Agriculture Service, the Power Marketing Administrations, the Maritime Administration, and the Denali Commission. For the first time since the implementation of the Great Society agenda in the 1960s, discretionary spending is

1. For more on this spending spree, see "Federal Revenue and Spending: A Book of Charts," at <http://www.heritage.org/research/features/budgetchart-book/index.html>.
2. These figures are adjusted for inflation and set in 2001 dollars. See Brian M. Riedl, "How Washington Increased Spending by Nearly \$800 Billion in Just Four Years," Heritage Foundation *Background* No. 1581, September 4, 2002, at <http://www.heritage.org/Research/Budget/BG1581.cfm>.

increasing faster than entitlement spending because Congress is inexplicably accelerating non-defense discretionary spending as fast as its war-focused defense spending.

To avoid even higher future taxes and an economy weighed down by an ever-expanding government, Congress must make difficult but responsible choices in 2003 to restore fiscal discipline.

WHAT HAPPENED IN 2002

Although Congress had not yet completed the FY 2003 appropriations bills when this analysis was written, discretionary spending appeared likely to end up around \$755 billion. This projection represents a 10 percent increase over the \$688 billion appropriated for FY 2002 (which was later increased to \$737 billion by two defense-related supplemental appropriations bills). Slightly over half of this \$67 billion increase is allocated to defense, with spending on homeland security also contributing to the increase. Under the appropriation bills being considered as of December 2002, it appears that no wasteful, obsolete, or ineffective programs of significance will be eliminated in the 2003 budget.

The most notable entitlement legislation enacted in 2002 was the farm bill (P.L. 107-171), which replaced the market-oriented 1996 “Freedom to Farm” law (P.L. 104-127) with a command-and-control corporate welfare system primarily for large producers. Two-thirds of the farm bill’s \$180 billion cost over the next decade will be distributed to the wealthiest 10 percent of farmers and agribusinesses, most of which have annual sales of over \$250,000.

WHAT MUST BE DONE IN 2003

Congress and the President have increased annual discretionary spending by over 30 percent in the past three years. With defense spending needs likely to persist in the foreseeable future, Members of the 108th Congress must resist the temptation to continue enacting “guns and butter” budgets. Specifically, in 2003 Congress should:

- **Focus on the economy, not the budget deficit.** Too many policymakers overstate the importance of balanced budgets. While balanced budgets are preferable to deficits, the 2002

federal budget's economic harm was not found in its \$159 billion deficit. Such deficits of only 1.5 percent of gross domestic product (GDP) are too small to affect interest rates significantly. Rather, the federal budget's drag on the economy was caused primarily by the imposition of high taxes that reduce incentives to work, save, invest, and create jobs, and government expenditures on wasteful government programs that displace the private sector. Instead of focusing on small, inconsequential, and abstract budget deficits, Congress should focus on the real economic harm that taxes and government spending have done to families and businesses.

Focusing on economic growth will, by itself, reduce the budget deficit. The reason: The economy drives the budget, not the other way around. Lower taxes and economic growth create new tax revenues that balance budgets. Sluggish economies bring in less tax revenue, trigger more entitlement spending, and worsen budget deficits. The budget surpluses of the late 1990s can be traced to the booming economy, and much of the current budget deficit is a direct result of the 2001 recession.³ Pro-growth economic policies not only help families and businesses, but also reduce the budget deficit.

- **Freeze non-defense discretionary spending.** The best way Congress can help families and businesses make ends meet is to restrain the growth of the federal government, which will in turn keep tax rates low and allow the market to flourish. Agencies receiving the bulk of the \$782 billion in new spending since 2000 do not need to have their already bloated budgets increased. The need for sufficient defense spending to fight the war on terrorism makes restraining non-defense spending more important than ever. Congress should stand for taxpayers and economic growth by freezing non-defense discretionary spending.
- **Eliminate corporate welfare over three years.** Eliminating corporate welfare is both good public policy and smart politics. Each year, businesses such as General Electric, IBM, and Sun Microsystems receive approximately \$85 billion in direct grants, research, subsidized loans, and other wasteful federal

3. Brain M. Riedl, "The Disappearing Budget Surplus Highlights the Importance of Economic Growth," Heritage Foundation *Backgrounder* No. 1599, October 2, 2002, at <http://www.heritage.org/research/budget/bg1599.cfm>.

aid. The Advanced Technology Program and the Department of Energy's research programs are among the relics of failed government experiments to pick market winners and losers. The Economic Development Administration and Commodity Credit Corporation represent the government's misguided attempts to create jobs by overtaxing productive sectors of the economy and redistributing that money to less productive sectors.

Phasing out these programs will free \$85 billion to fight the war on terrorism, provide homeland security, and accelerate the 2001 tax cuts. Abolishing corporate welfare has bipartisan support, and the recent accounting scandals provide a political environment conducive to finally getting large corporations off the dole. There is no justification for taxing working families to fund *Fortune* 500 companies.

- **Reduce government waste and terminate outdated programs.** Over the last decade, Congress has been largely silent about waste and ineffectiveness in the federal government. Those problems persist, as shown by the federal government's inability to account for \$18 billion in spending in 2001, billions lost in program overpayments, government credit card abuse, and the continuation of programs designed for the 1930s. These are not isolated incidents; they are powerful examples of a federal government that is too large and inefficient. New programs are continually added, but obsolete programs are never replaced.

Congress must initiate a thorough examination of the thousands of government programs and terminate those that are outdated, wasteful, and/or ineffective, such as the Agriculture Marketing Service, U.S. Geological Survey, and Rural Utilities Service. Congress should pass legislation to create an independent commission that presents Congress with a list of all duplicative, wasteful, outdated, and failed programs that should be eliminated, as Senator Sam Brownback (R-KS) and Representative Todd Tiahrt (R-KS) have proposed. Similar to the experience of the commission formed to close military bases a decade ago, creating such a commission on wasteful programs would require lawmakers to vote up or down on the entire package of program terminations, thus preventing each of them from trying to preserve their own special-inter-

est programs. The substantial savings from this effort could be allocated to more important priorities, such as the war on terrorism or making the pro-growth tax cuts permanent.

- **Fix the congressional budget process.** The congressional budget process has fallen into its chaotic pre-1974 state: Budget resolutions are not passed; appropriations bills are not completed on time; multi-year spending caps and PAYGO rules contain large loopholes and are rarely enforced.⁴ The collapse of the 2002 budget process and expiration of multi-year spending caps and PAYGO rules now provide Congress with an opportunity to step back and comprehensively reform the budget process.

Congress should resist bringing back PAYGO rules, which prevented trade-offs between discretionary spending and tax/mandatory legislation, failed to address current mandatory spending, ignored the size of government, and created a bias toward higher taxes and spending. Placing each year's total spending (both discretionary and mandatory) under one "OmniCap" would provide a simple, implementable way to hold down spending and allow trade-offs across all programs.⁵ Additionally, the concurrent budget resolution should be replaced with a joint budget resolution, signed by the President, so that Congress and the President can settle broad disputes early in the year. Most important, spending caps and budget resolutions must be enforced strongly with supermajority votes that cannot be avoided through loopholes.

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4. Spending caps and PAYGO expired in 2002 but are likely to be re-implemented in 2003. The Senate has already extended portions of PAYGO into 2003.
 5. Brian M. Riedl, "How to Fix the Broken Federal Budget Process," Heritage Foundation *Backgrounder*, forthcoming.

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