"BRINGING THE BUDGET UNDER CONTROL"
Honorable Bill Gradison

Bringing the Federal budget under control in this decade involves two fundamental tasks: Eliminating the chronic deficits that are sapping the economy, and getting control of spending. A Republican Congress would pursue both by putting the nation's long-term economic health ahead of shorter-term political convenience. The process would not be painless, but it would be sound, realistic, and honest.

The Need for a Surplus

Consider the deficit first. Frankly, trying just to reduce the deficit, or balance the budget, is not good enough. Bringing the budget under control means running an annual on-budget surplus -- a surplus equal to at least the excess contributions to the off-budget Social Security trust fund.

Why is this necessary? Only by having an on-budget surplus will we be able to pay Social Security benefits three decades from now when the time comes to draw on the government securities in which the Trust Fund in invested. This is what the Greenspan Commission had in mind when it revamped Social Security benefits and taxes in 1983 to assure the Trust Fund's solvency when the baby boomers begin retiring. Fulfilling that goal now depends on Congress.

In addition, an on-budget surplus is a prudent long-term economic strategy. It will increase net national savings, which is needed to foster economic growth, enhanced productivity, and higher living standards.

To put it simply, long-term economic growth depends not on fiscal stimuli or quick fixes, but on Congress's ability to balance its own books and meet its future obligations.

Taxes Versus Spending Restraint

But setting a goal and achieving it are, of course, quite different matters. Turning chronic deficits into recurring surpluses will not be easy, even for a Republican Congress.

Public opinion polls offer little useful advice. They seem to say the following: First, balance the budget; second, don't raise taxes; third, don't even think about cutting any programs important to me. These are the same polls that tell us the solution to the deficit problem is cutting out government waste, fraud, and abuse. I only wish it were so easy.
Nor does the answer lie in higher taxes. Taxes have rarely been higher than they are today. Total federal revenues averaged about 18 percent of GNP in the 1960's, about 18.5 percent in the 1970's, and about 19 percent in the 1980's. For the 1990's, revenues appear to be heading toward 19.5 percent of GNP.

This point was dramatically underscored in Congressional Budget Office projections through the year 2001 that were published last October. In those projections, revenues chugged along in the range of 19.5% of GNP, while spending wound up at almost 22 percent of GNP by 2001. The spending line and the revenue line never converged, meaning that the deficit would continue unabated at about 3 percent of GNP. With GNP expected to be around $10 trillion in the year 2001, this would translate into a deficit of about $300 billion. More taxation is not the cure for the budget problem.

Where to Cut

But if spending is the problem, what spending needs to be controlled?

A popular suggestion is cutting foreign aid. This may be a sore political issue, but it is no answer to the deficit. This year we will spend about $20 billion on foreign aid out of a $1.5 trillion budget, about 1.3 percent of total federal outlays. Even completely eliminating foreign aid would scarcely dent the deficit.

Another prominent target is defense spending. The end of the Cold War and the collapse of the Soviet Union do permit a reassessment of the priority given to defense spending, and such reviews are under way in both the Administration and the Congress. The result is that defense spending will soon fall to the lowest level in decades measured in real terms or as a percent of GNP. Indeed, in the next five years -- 1993 through 1997 -- defense outlays already are scheduled to be nearly $150 billion lower than what they would be if adjusted only for inflation. Nevertheless, these substantial defense reductions do not translate into budget surplus. Most of the so-called "peace dividend" gets swallowed up somewhere else.

Then there is overall discretionary spending. But the truth is, this is not the budget-buster that some would make it out to be. Expressed as percentages of GNP, all discretionary spending declined from 9.6 percent in 1991 to about 6.8 percent by 2001. Appropriations are not the problem.

Deposit insurance costs are expected to turn around by about the middle of the decade. Interest payments to service the debt accumulated through decades of deficit spending is an inescapable burden which we must pay no matter what.
Examining the CBO projections suggest where the trimming must be done. It's where the true spending problem lies: Entitlements, especially those involving health care.

While most entitlements are flat or even declining slightly as a percent of GNP, Medicare and Medicaid are projected to grow from 2.9 percent of GNP in 1991 to 5.2 percent by 2001. Until the rising costs of these two programs are brought under control — and total national health care costs as well — it will not be possible to reduce or eliminate the budget deficit.

The Problem is The Problem

No one enjoys admitting this. It is much easier to look the other way, pretending these entitlements can continue expanding and that spending can be controlled elsewhere. This fear of short-term political pain is the enemy of the long-term good that would come from an on-budget surplus.

Many clever changes in the budget process have been suggested. Some of them are appealing, such as a biennial budget resolution that must be signed into law. Others are simplistic. Most are politically appealing. But, as was observed by a former CBO director, the problem is not the process, the problem is the problem. Therefore, a Republican Congress would not waste much energy on revamping budget procedures and processes. Instead it would tackle the tough job that has been avoided for too long: Controlling government spending, with the first priority given to getting health care costs under control.