

Budget Reform at Every Level

The Cato Institute hosted several events this summer on the need to reduce government spending. At a June 29 Cato Institute Hill Briefing, “A Minority Viewpoint: The Need to Battle Bipartisan Support for Big Government,” Rep. Jim Cooper (D-TN), policy chairman of the Blue Dog Democrat Coalition, and Stephen Slivinski, Cato’s director of budget studies and author of “The Grand Old Spending Party: How Republicans Became Big Spenders” (Cato Institute Policy Analysis no. 543), participated in a discussion on reining in federal spending. On July 20, Manhattan Institute senior fellow Steven Malanga, author of *The New New Left: How American Politics Works Today*, spoke about how state and local politics is controlled by big spenders. Excerpts from their remarks follow.

Jim Cooper: Both parties have fallen down on their responsibility to reduce our federal budget deficits, ideally by controlling spending. Comptroller General David Walker deemed 2004 the worst year in our fiscal history because politicians promised \$13 trillion in spending over the next 75 years, and none of it is paid for.

The entire federal budget process this year—from the first look at the \$2.6 trillion package to the final vote—took about two hours. By the end of the Bush administration, we will be spending nearly as much money on servicing the national debt as on all nondefense discretionary spending combined.

The budget process reform package that the Blue Dog Democrats have put forward rests on a requirement to pay for current programs with current spending, or “PAYGO.” We need to reinstate real two-sided PAYGO, which means that any spending increase or a tax must be offset by reductions in spending or increased revenue elsewhere. That really should not be an ideological battle. We had PAYGO from 1990 to 2002, and Alan Greenspan can even remember the day that Congress let PAYGO expire.

Perhaps the single most irresponsible piece of legislation ever passed by Congress was the \$8.1 trillion Medicare prescription drug bill. The American people must be alerted to the danger of trillions of dollars of promised, unfunded spending. Unfortunately, by the time Americans understand the danger, it will probably seem politically too late to fix it. It’s easy to believe that once

you pass an entitlement program it can never be repealed. But we’ve repealed irresponsible spending before, including the catastrophic health care entitlement program, and we can do so again.

In another example of reckless budgeting, the war in Iraq has been conducted almost entirely off-budget. It is not even mentioned in the president’s budgets. It is scandalous that our troops run out of money well before the end of the fiscal year and must beg for more money to tide them over. This administration claims to be pro-defense, but it is raiding every other account in the Pentagon year after year to come up with the funding needed to supply our troops.

We are looking for devices to force politicians to do the right thing. Those of you who are not



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historians may not know that it took America almost 204 years to accumulate \$1 trillion in debt, and now we add another trillion every year or two. Both parties are responding to this crisis with proposals for budget process reforms instead of substantive spending cuts. And even those measures have been delayed because the majority can’t agree on what package of reforms to pass. The Blue Dog reform package is a 12-step program to get our nation off its drunken spending binge. And like a typical AA program, the first step is to admit that we have a problem and talk openly about it. We need a bipartisan consensus that, as individuals and as a nation, we must live within our means.

We must have real, enforceable spending caps. A lot of politicians talk about caps on spending, but their definition of emergency spending is so broad and vast that the caps are easily circumvented. We need to set aside a rainy day fund that will, it is to be hoped, inhibit loose congressional definitions of emergency spending. A constitutional balanced-budget amendment is more controversial but harder to get around, and if we’d had one in place at the start of the Bush administration, we probably would not be in the predicament that we are in right now.

To hold politicians accountable for their spending, we need recorded votes on every appropriations bill and cost estimates before we vote. We should go back to holding a vote each time we want to raise the debt ceiling. Things like that are almost so commonsensical that it is embarrassing to have to mention them in the Congress of the United States of America in the year 2005.

We are going to look back on this era and ask, What on earth were we thinking? Why were we endangering the future of the greatest country on earth by engaging in such spendthrift, uncontrollable practices without any seeming regret, and in fact with considerable enthusiasm?

The ideal thing for both parties to do would be to embrace spending cuts—real, substantive cuts—now, before the election. They must face up to the reality that they often voice rhetorically but seldom risk much for. Programs like the Medicare prescription drug benefit must be repealed, or at least delayed until we can pay for them. We owe our seniors not an increased mountain of debt but real benefits that are really paid for. And we owe it to our grandchildren not to transfer to them the bills for our spending.

Steven Malanga: Here in Washington, D.C., we look at the 2004 election and we talk about the importance of voters expressing their values. We talk about the importance of the war in Iraq. But state, county, and city governments in America have priorities that are vastly different from those in Washington.

The shift in focus in local government is controlled by the rise of a political party that is neither conservative nor liberal in the traditional sense; it is, rather, a party of those who benefit from an ever-expanding government. For 50 years, they have increasingly shaped and influenced municipal and state budgets in fundamental

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ways that often impose steep costs on taxpayers, costs that are not so easily unraveled. Those public-sector advocates have successfully pursued an agenda of higher taxes, more spending, and social and regulatory legislation at the local level.

In New York, for instance, the health care workers' union and the teachers' union run radio ads every spring warning that if we dare to cut the state Medicaid budget or education funding, there will be a political cost and dire consequences for children and the poor. In California right now, public-sector unions have already spent an estimated \$20 million on advertising fighting Governor Schwarzenegger's reform agenda, and they have publicly proclaimed that they plan to spend an additional \$50 million on that campaign.

This new political reality began in the late 1950s and the mid-1960s when we began to see the formulation of the War on Poverty. The people who began our anti-poverty programs had the fundamental attitude that the American federal government needed not only to funnel billions of dollars to help the poor but also to empower communities by letting local governments decide how to spend it. Local governments, in turn, handed out the money to a wide array of emerging groups, from community development organizations, to nonprofit housing groups, to government-supported drug rehabilitation centers.

In a short time, the federal government's money created a panoply of publicly financed social advocacy groups that gradually learned that their survival lay in keeping the government funding faucet open. At the same time, public-sector workers were given the right to collectively bargain, creating unions and interest groups of government employees who lobby for more money to keep and expand their jobs.

In the process of developing social programs, the government also transformed many traditional charitable groups, which formerly had financed their programs through donations, into government contractors living increasingly off of public money. For instance, in the 1960s Catholic Charities, one of America's largest charities, received less than 10 percent of its money from government. Today about 60 percent of its revenues come from government.

Those interest groups quickly realized that they had to become politically active. They

began mobilizing their clients to demand more services and oppose cutbacks. They spawned activists who began running for office and were elected on a big-government agenda. And as their numbers grew, they became a powerful voting bloc. In New York City, for instance, social service jobs in the mid-1970s totaled about 50,000 positions. Today, there are nearly 200,000, mostly government-supported, social service jobs in New York City, more jobs than exist on Wall Street.

As the War on Poverty got under way, the Johnson administration changed the nature of health care in this country with two massive government programs, Medicaid and Medicare. The term “health care” didn't exist in the early 1960s; it was called “medicine.” Medi-



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cine has now been transformed; it's the province not of doctors but of economists. Hospitals now oppose reforming state Medicaid and Medicare with claims that lowering public spending would destroy jobs, in effect arguing that health care is not a medical program but a jobs program.

Today, with the growth of Medicaid and Medicare as well as that of related programs such as Family Health Plus and Child Health Plus, government pays more than half of all health care bills in the United States, and in the places where Medicaid and Medicare programs are the largest, the percentage is far higher than 50 percent. In effect, we are actu-

ally slowly getting socialized medicine.

That has turned large portions of health care's huge workforce—which has grown from about 4 percent of the private-sector workforce in the United States in the 1960s to 10 percent today—into advocates for more spending on government-financed health care at taxpayers' expense.

While it may seem great that health care is growing so quickly, economists can see that the spending is all tax money and that it costs us more than we benefit from it. And the interest groups lobbying to increase spending have forced cities such as New York to keep expanding their budgets even in the midst of steep recessions. We have had to keep taking money out of the private sector to keep feeding the growth of this public-sector economy.

We have come a long way from the days of the old new left, which idealistically, if somewhat naively, believed that a paternalistic government could solve many of our social and economic problems if we just spent enough money on them. The present enormous publicly supported workforce, the livelihood of which depends on a bigger and ever-expanding government, has grown big enough and strong enough in most states to play an important role nationally. This “new new left” will lead the charge for the federal government to pay the bills when state budgets explode, and it's already succeeding. In the post-9/11 recession, the federal government spent \$20 billion rescuing state Medicaid programs from the costs of their 1990s spending sprees.

The bills for public-sector spending are coming due in states and cities, and we are starting to see the fiscal stress and the political storm that have been kicked up in California and New Jersey. The governor of New Jersey has admitted that even though it is one of the wealthiest states, with the highest state and local taxes in the nation, it has given away too much to public-sector employees and cannot pay its bills anymore. States have borrowed money to pay for expansive public spending, and future generations will be paying the price.

Those whose livelihoods are based on the expansion of government see their states' funding drying up, and so they are trying to make the leap to spending at the national level. It is part of a political calculation

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that we are only slowly coming to understand and deal with. We will need fiscal responsibility at all levels of government to protect our budgets from the interests of those who make their living doing good on the public dime.

Stephen Sivinski: You might recall a speech by Bill Clinton in which he said, “The era of big government is over.” There has been some disagreement about whether that statement is true. I think it is, but not for the obvious reasons. I think the era of big government is over. The era of even bigger government has begun.

I think I might prefer the era of big government to what we have currently, and one of the reasons I wrote “The Grand Old Spending Party” is because the numbers really do speak for themselves. George W. Bush is the biggest spending president since Lyndon B. Johnson, after adjusting for inflation and taking defense spending and entitlement programs out of the equation.

Total government spending grew by 33 percent during George Bush’s first term, and I wondered why that was the case. Republicans always talk about being fiscally responsible and fiscally conservative, trying to put forward ideas that restrain government. Part of the problem is that we now have a united government. Both ends of Pennsylvania Avenue are controlled by Republicans. When you think about what the Founders of the nation had in mind when they created a bicameral legislature and then divided power among the three branches, you start to notice that maybe there is something to be said for gridlock, having one party in the majority in Congress fighting the other party in the White House.

Gridlock actually makes people stick to their principles much more vigorously than they have lately. Gridlock resulted in a decline in spending as a percentage of GDP. It doesn’t necessarily imply net declines in spending, but it has led to a leveling off of spending to allow the economy to catch up with new expenditures. And so government shrank as a percentage of the overall economy.

What you are seeing now is unfortunately an environment in which there are no checks and balances. If Bush presented a budget that grew by only 3 percent and Congress pre-

sented a budget that grew by 7 percent, and the president then vetoed that budget and forced them to come back with another one that featured more vigorous fiscal control, I would not be telling this story. The problem is that Bush has sent Congress budgets proposing 7 to 8 percent spending growth per year. Members of Congress add pet projects for their own districts and states and send the budget back to the president. The president has not vetoed a single bill yet, no matter how big the expenditures.

In that respect, Congress and the executive are trying to outdo one another by giving their constituencies more and more spending. The price for that failure to con-



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trol the budget is about \$91 billion. That is the amount above and beyond what the president proposed in nondefense discretionary spending that Congress added to the president’s budget and that President Bush did not veto when he had the chance.

Spending is driving this problem. There has been some argument on both sides of the aisle about whether the tax cuts or spending increases caused the problem. Certainly they both contributed, but spending caused more of the problem.

Deficits really are bad in and of themselves because they saddle future generations with the cost of spending in the present. It is immoral to burden future workers with the costs of our programs. Some observers might even call this intergenerational tax-

ation without representation.

Even in the short term, deficits and debt hide the true cost of government from taxpayers. If the people’s tax burden does not equal the costs of current expenditures, politicians are essentially able to promise various and sundry goodies for free, because voters cannot see the full cost that might dissuade them from voting for people who would increase government spending even further.

Restraining spending on current programs is really just half the problem. We also have to reform the budget rules so that there are incentives not to create new government programs. Government programs do take on a life of their own. As Ronald Reagan once said, “A government program is the nearest thing to eternal life we’ll ever see on this earth.”

I think there could be a bipartisan solution to the government spending problem. And part of that solution comes from the reform-minded members of Congress on both sides of the aisle, such as the Blue Dog Democrat Coalition and the Republican Study Committee. The goal is to encourage spending control and to put into place rules that will affect the budget process and allow spending to be restrained.

There could be a bipartisan agreement to cap increases in discretionary spending for the next three fiscal years at 2.1 percent, as proposed by the Blue Dogs. The Congressional Budget Office should prepare a cost estimate for every bill that comes to the floor to make sure it fits under the cap. Congressional agencies should not get new budgets until they can at least pass an audit.

To hold members of Congress responsible for their spending, make them show how much spending they are supporting by forcing roll call votes on any bill above \$50 million, which would include most of the omnibus spending bills used to hide local pork projects. Make Congress justify the money it is spending. And give members of Congress time to read the final text of legislation before they have to vote.

Those kinds of incentives need to be put forward on the spending side. There has not been any attempt to do so until now, and I think a hearing or a series of hearings on budget growth and the problems with the budget right now would do a lot to get us started. ■