NATIONAL COUNCIL OF LA RAZA

ISSUE ANALYSIS OF
SPENDING LIMITATIONS

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SPENDING LIMITATIONS

I. INTRODUCTION

A. The Congressional Budget Process

The Congressional Budget and Impoundment Act of 1974 (P.L. 93-344) represented an historic legislative development. It equipped Congress for the first time with the procedures needed to assert proper control over the federal budget. In the past, Congress had been unable to develop an overall budget policy because it lacked both the required technical information and adequate procedures. Each session it would consider 13 separate appropriations bills, several supplemental requests, and any number of "backdoor" spending proposals ("Backdoor" authority is a term generally used to denote legislation enacted outside the normal appropriation process that permits the obligation of funds). Congress would consider these various measures at different times and upon the recommendations of different committees. Tax decisions were also made separately.

At no time had either the House or Senate or any committee considered the overall level of federal spending in relation to either projected revenues or general economic conditions. The Congressional Budget Act was enacted to correct these inadequacies. It established committees on the budget in both House and Senate, with primary responsibility for developing and coordinating a comprehensive budget policy each year. To ensure both committees and Congress an adequate source of budget expertise, it also created a new non-partisan Congressional Budget Office (CBO).
The 1974 Budget Act also disciplined Congressional procedures. It provided for the adoption each session of a series of "concurrent resolutions on the budget." Under the Budget Act, the House and Senate must agree on the First Budget Resolution, which sets spending targets, expected revenue levels and the budget deficit for the coming fiscal year. While these targets are not legally binding on Congress, they do provide guidelines as individual taxing and spending decisions are made throughout the year. The Budget Committees are required to report out the first budget resolution by April 15. By May 15 Congress completes action on the first budget resolution. The second budget resolution must be completed by September 15. The second resolution sets spending and taxing figures which are binding on the Congress. Members of Congress cannot spend more unless an amended third resolution is passed.

Within the structure provided by the Budget Act, Congress already has the tools to "limit" spending through a variety of steps in the process:

- When considering "new" legislation or authorizing legislation Congress examines the substance of programs and sets or "authorizes" the maximum amount of money which can later be appropriated to those programs.

- On an annual basis, Congress reviews legislation and makes decisions on the amount of funds it will appropriate to various authorized programs.

- Through "reconciliation" Congress can re-examine the original law and change the amounts of money authorized. This technique is a relatively new one which is being utilized more and more. It allows Congress more autonomy in that the usual public review process (such as the public hearings during reauthorization) can be circumvented.
The problem of controlling spending arises when politicians have to consider the pressures placed on their chances for re-election when they are forced to prioritize which programs will expand or receive cuts or even be ended. Almost everyone agrees that there is a need to cut government spending, but when faced with the prospect of slashing funds for their own "pet" programs, which help maintain the support of the voters back home, balancing the budget presents serious problems.

The conservative mood of the country (as demonstrated in the last election), the rise in inflation and the pressures to increase defense spending have caused an environment of impatience which has propelled a keen interest in finding a quick and simple solution to the problem of capping government spending.

B. The Problem

Even with an annual federal budget of approximately $600 billion, there is not enough money to go around. Resources are limited, and choices have to be made. The major obstacle to any attempt Congress makes to balance the budget has been the tremendous growth of "entitlement" programs; Social Security, Medicare, Medicaid, educational grants, food stamps, and many other endeavors that give individuals legal claim to federal funds constitute the "entitlement" programs.

While there is much support for continuation of these social service programs, in both a political and practical sense it is very difficult to project how much the various programs will cost on an annual basis -- since there is no way of estimating how many eligible people will apply for such assistance.
During the past decade, benefits in most of the programs have been "indexed" to rise automatically with increases in the cost of living. Combined with the growing elderly population, which ensures growing numbers of beneficiaries, this means the programs will lay claim to a growing share of the federal budget. The Office of Management and Budget estimates that programs of payments for individuals, which include Social Security, Medicare and Medicaid, and most other entitlement programs, will consume 50% of total outlays in fiscal 1985, up from 49% in 1981, 37% in 1971, and 20% in 1961. Therefore, while there is a majority in agreement that the entitlement programs are worthy, they still cause immense frustration to those who have tried to control federal spending. Since entitlement programs make up 51% of the 75% of the federal budget which is categorized as "uncontrollable," it seems likely that any attempt to limit spending will eventually force Congress to begin to explore strategies for cutting entitlement costs.

The other 24% of the "uncontrollable" portion of the budget is made up of the following costs: interest payments on the national debt, spending out of the Highway Trust Fund, Defense Department spending out of prior years, and other prior year contractual obligations of the U.S. government.

C. The Concept of Spending Limitations

In an attempt to define "spending limitations" in its broadest sense one must examine five major approaches. These include:

1. Reliance upon existing budgetary processes and a commitment from Congress to use these processes in pursuing a balanced budget.
. A tax limitation to restrict the availability of revenues.

. A constitutional amendment mandating a balanced budget.

. A constitutional amendment providing for a limitation on total federal government spending.

. A statutory limitation upon total spending or annual spending increases.
II. POSSIBLE METHODS FOR LIMITING FEDERAL SPENDING

A formally legislated tool such as an amendment to the Budget Act is now being recommended to provide a formula approach to capping federal spending.

A spending limitations amendment would provide a shield for legislators to use to protect themselves when voters begin to ask why certain services are being cut or eliminated. It is with this concept in mind that Congress has begun to explore the more specific definition of "spending limitations."

A. Spending Limit Proposals

In the House, more than 30 "formula" spending limit plans have been introduced, linking government spending to such measures of economic activity as the Gross National Product (GNP). According to Budget Committee member James R. Jones (D-Okla), "Unless there is some artificial limit under which politicians can take cover, you aren't going to get the specific cuts." Mr. Jones is the sponsor of a spending limit plan.

Rules Chairman Richard Bolling (D-Mo) appointed a special task force headed by Anthony C. Bielenson (D-Ca) to review the dozens of spending limit plans on file and recommend a single proposal to the full committee. Eleven days of hearings were held on the subject on the following dates: January 30; February 6, 13, 20, 27; March 5, 10, 13, 19 and 20, 1980. The four major proposals examined by the task force are summarized as follows:

Amends the Congressional Budget Act of 1974 to prohibit the adoption of any concurrent resolution on the budget which sets forth a level of total budget outlays in excess of 21 percent of the Gross National Product in fiscal year 1981, or 20 percent of the Gross National Product for each fiscal year thereafter. Establishes procedures to enable the President and the Congress to suspend such limitations on the level of budget outlays.


This bill would limit both direct spending and tax expenditures to 28.3 percent of Gross National Product in 1981; 28 percent in 1982 and 27.5 percent in 1983. It provides that a majority of both houses could overturn the limit upon recommendation by the President should an emergency arise.

It would also provide a federal credit program control system to assist in the annual review of direct and guaranteed loans under federal credit programs. The system would provide a way of considering resource allocation effects of federal loans and loan guarantees or the reasonableness of the total volume. It would allow Congress to exercise the same control over federal credit activities as it does over direct spending activities.


Would limit spending to 21 percent of Gross National Product in fiscal 1981 and 20 percent thereafter. Would phase in control on federal loan programs. It provides that the limit could be suspended upon recommendation by the President and a majority vote of both houses of Congress.


Would require the Federal Reserve Board to recommend annual aggregate spending, revenue and deficit figures for the coming fiscal year. It would require adoption by March 15 of a resolution setting total figures for spending and revenues. Congress then would fit line item spending to these totals.
B. Problems with GNP-Linked Proposals

Of primary concern to Bielenson and his panel is whether federal outlays should be tied to GNP. Because of the way the GNP fluctuates, such a link could cause spending to decrease during bad economic times and increase during times of high inflation. For example, if the budget is limited to a percentage of GNP and the economy slips during a recession, the budget automatically increases as a proportion of the GNP, so cuts are required. The ability to spend is restricted because the budget is likely to bump up against the ceiling.

A second problem is that spending trends for responding to an economic shift would be limited. During a recession a spending limit could have only the choice of a tax cut for stimulus, with the limit precluding jobs programs requiring a direct outlay.

In addition, as Congressional Budget Office Director Alice M. Rivlin told the study group, any agency charged with developing the GNP estimate would be under immense political pressure to boost the figure to allow for extra spending.

Another problem with a spending limit tied to GNP is that according to studies made by Representative Solarz (D-NY), the percentage of GNP spent by government has no direct effect on the rate of inflation. Since one of the original motives for a spending limitation was to reduce the rate of inflation, a spending limitation tied to GNP would not accomplish that goal. He cites the following facts to illustrate the point: Sweden, Canada, West Germany, Belgium, the Netherlands, France, Austria, and Norway all have lower rates of inflation than we do, yet they all spend a significantly higher percentage of their GNP on government programs.
The Netherlands, which spends more of its GNP (51.2 percent) on government programs than any other Western country, has an inflation rate of only 3.8 percent. The United States, which spends only 34 percent of its GNP on federal, state and local programs has an inflation rate of approximately 12 percent.

In his letter to Congress in December of 1979 Solarz further states that the most likely practical effect of both the Jones and Giaimo bill will be to kill the budget process. He described the probable scenario:

Under both the Giaimo and Jones bill a separate vote is necessary to suspend the spending limitation before a resolution breaching the limitation can be considered. Given the politics of the House, no such motion to suspend the limitation will be adopted by a recorded majority vote. Republicans and conservative and politically insecure Democrats will vote against such a motion the way they vote against increases in the debt ceiling. As a result, the House will have to consider a budget within the spending limitation. However, such a budget will not be able to get the support of members. Conservatives will oppose the resolution because of cuts in defense, liberals will oppose the resolution because of cuts in social programs, and moderates will oppose the resolution because their local elected officials will be upset about the cuts in aid to state and local governments. The results will be that we will have no budget resolution and spending and tax cut bills will pass without consideration for their impact on the deficit.

Other problems the panel must evaluate include:

- Unless credit programs and tax expenditures are controlled along with direct spending, lawmakers could circumvent spending limits by passing tax breaks or new loan or loan guarantee programs. Giaimo warned the task force that such programs were becoming "the wave of the future" because they were not subject to the same control as direct spending. And Reuss predicted, "Rigid formulas would simply send legislators scurrying for ways to get around them."

- Many lawmakers argue that a precise definition of tax expenditures has not been developed. They also protest that it is impossible to determine in advance of budget year how many taxpayers will take advantage of such tax breaks as mortgage writeoffs or child care credits.
C. Problems with the Proposals Linked to the Federal Reserve System

An alternative to a GNP based spending limitation has been suggested by Representative Gephardt (D-Mo). His proposal would require that the Federal Reserve Board recommend annual aggregate spending, revenue and deficit figures for the coming fiscal year. He would then require adoption by March 15 of a resolution setting total figures for spending and revenues.

Alice Rivlin of the Congressional Budget Office objected that Gephardt's approach would result in "unrealistically small budget resolutions that would have to be amended several times during the fiscal year as specific spending and tax bills were approved." In addition, some lawmakers fear that an approach such at Gephardt's would blur the lines between Congressional responsibility for fiscal control and the Federal Reserve Board's responsibility for monetary control.
III. IMPLICATIONS OF SPENDING LIMITATIONS

Unless a spending limit proposal required cutbacks in entitlement programs -- programs for which spending is set by law -- the one-quarter of the budget that is "controllable" would have to bear the burden of annual cuts.

This "controllable" portion of the budget contains the often controversial human service programs which focus on poor and minority individuals and communities. Many of these programs are up for re-authorization in the 97th Congress. The following list indicates the critical nature of possible cuts in "controllables":

1. Youth Employment Demonstration Projects Act (CETA Title IV)
2. The Community Revitalization Act
3. The Voting Rights Act
4. The Vocational Education Act
5. The Consumer Cooperative Bank Act
6. The Clean Air Act
7. The Equal Opportunity Act

Moreover, if the spending limitation had been enacted last year, both "controllables" and the traditionally safe entitlement programs would probably have been cut. The range of cuts would have been from $41 billion to $55 billion.

In addition, the authors of the bills reviewed earlier imply in their arguments that spending limitations are essential in order to combat spiraling inflation. In economic terms their implications and arguments are without foundation for the following reasons:
The size of the federal budget does not in itself add to inflation. This is particularly the case in the current economic stagnation when more than 6 million workers are officially counted as unemployed and the nation's industries are operating at less than 85 percent capacity -- far below their most efficient level. So limiting the size of the federal budget will scarcely make a dent in the current level of inflation.

The current inflation does not result from excessive federal spending but rather from high unemployment and low output. The Administration itself notes that the federal budget would show a $56 billion surplus for FY 1981 if unemployment could be lowered to 5.1 percent instead of rising to an expected 7.5 percent by the end of the year.
IV. CONCLUSION

In reviewing all the information provided above, some major implications become apparent:

. In the wake of Proposition 13, Congress is beginning to feel the pressures to cut inflation, cut taxes and attempt to balance the budget.

. The current international scenario and the conservative mood of the country show additional pressure to increase defense spending.

. If any of these pressures is to be addressed, Congress must begin to re-examine priorities and find ways to "control" the "uncontrollable" expenditures such as the costs of entitlement programs.

. Despite the popularity of most entitlement programs, it is likely that these will be viewed as candidates for cuts, given the current mood of the Congress and the country.

. Social service programs which are up for reauthorization directly affect Hispanics, the poor, and all minorities, in areas such as education, employment and training, low-income housing, civil rights, economic development, as well as other areas effecting basic human needs. All indications are that there will be significant budget cuts or possible termination of some programs.

. Despite the fact that the formula spending limitations proposals in the last Congress died before coming to the floor, political expediency indicates the concept will be reintroduced in order to provide the political "shield" necessary when programs are cut. There has been discussion that a spending limitation will be included when Congress considers the first Budget Resolution in 1981.

. Any supposedly "simple" solution must be examined very closely in order to avoid superficial solutions. Congress will have to grapple with the fact that a balanced budget will mean serious sacrifices. The responsibility for organizations concerned with low-income and minority Americans will be to assure that these populations do not suffer disproportionately from budget cuts.
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