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CLINTON BUDGET SURPRISES: HIDDEN SPENDING AND EXTRA REVENUES

What effect would adoption of the Clinton budget plan have on total federal outlays and revenues in the next four years? The customary way of addressing this question is to compare the Clinton projections of spending and receipts with the corresponding amounts in the Congressional Budget Office (CBO) current-services baseline. (The CBO baseline projects outlays and revenues on the assumption of no changes in existing statutory provisions.) The comparison is misleading, however, because it ignores the very large revenue and spending increases already built into the CBO baseline. CBO projects that fiscal year 1998 federal outlays, for example, will be $470 billion more than actual spending in fiscal year 1992 and that 1998 federal revenues will exceed 1992 revenues by $370 billion. For fiscal years 1993-1998, total federal outlays are $1,534 billion higher under the CBO baseline than they would be if expenditures were kept at their 1992 levels. For the same period, total federal revenues are $1,326 billion greater under the CBO baseline than if maintained at their 1992 levels. (See Table.)

The Clinton plan would accelerate the revenue increases and, if taken at face value, moderate the spending increases. The Clinton Administration claims that its plan would cut federal outlays relative to the baseline by $84 billion in fiscal year 1998 and by a total of $215 billion over fiscal years 1993-1998. The Administration also says that under its plan revenues would exceed the baseline by $64 billion in 1998 and by a total of $245 billion for 1993-1998. Compared to 1992 levels, however, cumulative federal government spending under the Clinton plan would still rise by $1,320 billion for 1993-1998 and total revenues would increase by $1,571 billion.

(The numbers used here are from the Administration's *A Vision Of Change For America*. Some Congressional reestimates predict smaller effects on spending and revenues. In response to the reestimates, the Administration is promising more spending reductions. It has not revealed, however, what the additional cuts will be or even agreed to their amount.)

One area of spending, national defense, is already slated for large absolute cuts, and the cuts would become much larger under the Clinton budget plan. The arithmetic of the Administration's plan also hinges on a substantial fall in the government's interest costs. (The Administration contends its plan would lower the government's debt service charges in two ways. First, it claims that the other parts of its package would reduce the deficit relative to the CBO baseline, decreasing the amount of debt on which the government must pay interest. Second, it assumes that it can lower interest costs by issuing shorter-term government securities.) Non-defense discretionary spending, however, would actually rise faster under the Clinton plan than under the CBO baseline. This is due to heavy non-defense discretionary expenditures in the the Administration's "stimulus/investment" package. According to the Administration, its plan would lower mandatory payments by $111 billion relative to the baseline for 1993-1998.

The Clinton Administration counts as "spending cuts" many items that most people regard as revenue increases. These changes include a large number of fees and excises, stepped up IRS enforcement efforts, and, most notably, a sharp increase in the tax on social security benefits. The revenue hikes

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that the Clinton Administration calls "spending cuts" sum to at least $58 billion over the 1993-1998 period. (This reclassification gives the Administration the benefit of the doubt. Unless an item is a blatant revenue raiser, it is left as a spending cut.) When these items are classified as revenue increases instead of spending cuts, the spending reductions become smaller and the revenue increases significantly steeper than the Administration acknowledges.

To be sure, the federal government collects substantial revenues that are routinely included on the spending side of the federal budget as negative expenditures. The effect of these spending offsets is to make the government sector appear significantly smaller than it really is. Nevertheless, proposals that are obviously revenue raisers are usually recognized as such in policy debates. (In a more complete reclassification than is presented here, the CBO baseline would also be adjusted for revenue raisers that are now listed as spending offsets. If this were done, the reported levels of federal spending and revenues would both be higher.)

Once corrected for revenue increases mislabelled as spending cuts, the total cuts forecast for fiscal years 1993-1998 are $156 billion, compared to the CBO baseline. The cumulative increase in outlays relative to 1992 spending, though, is $1,378 billion. Revenues increase for 1993-1998 by $303 billion relative to the CBO baseline and by $1,629 billion relative to the 1992 level of revenues. Using the Clinton Administration's numbers, its plan would increase revenues by $1.14 for every $1 cut in spending over the period 1993-1998 (revenues and spending measured relative to the rising CBO baseline). Once corrected for this mislabelling (and assuming very optimistically that all other spending cuts are solid), the plan's actual ratio would jump to $1.94 of revenue hikes for every $1 of spending cuts.

It would be extremely surprising, however, if the Clinton plan were to cut government spending (or, more accurately, slow its rate of growth relative to present spending) by nearly as much as the Administration forecasts. It would not be particularly surprising, in contrast, if the plan fails to lower total spending at all. About half of the gross spending cuts would come in the area of national defense, and as America has discovered on many prior occasions, defense spending is often hostage to world events. The debt service savings that the Administration counts on for another one-quarter of the gross spending cuts will only materialize if the rest of the plan actually reduces the budget deficit and if the government bets correctly on how interest rates will move in the future.

In the area of domestic spending, many of the hypothesized spending cuts are little more than acts

Cumulative Changes In Federal Outlays And Revenues, Fiscal Years 1993 - 1998 Compared to 1992 Levels (Billions Of Dollars)

	CBO Current Services Baseline	Clinton Budget Plan, Using Its Classification Of Spending Cuts And Revenue Raisers	Clinton Budget Plan, Corrected For Mislabelling Of Spending Cuts And Revenue Raisers
Total Spending	$1,534	$1,320	$1,378
Defense	-68	-177	-177
Non-Defense Discretionary	238	306	309
Mandatory	1,083	972	1,027
Debt Service	281	218	218
Revenues	1,326	1,571	1,629

of faith. The Administration claims, for instance, that it will save $8 billion through unspecified "streamlining" of various government departments and agencies and will achieve another $8 billion of "other administrative savings" through multi-agency administrative efficiencies, whatever that means. The Clinton plan has few specific proposals that would actually result in large reductions in domestic spending. That may explain why most groups associated with domestic spending programs have said little against the Administration's budget: unlike taxpayers, they would not be among those who would be required to "contribute". The Administration has targeted health care providers for a large share of the entitlements cuts, but past government efforts to contain medical costs have usually generated reams of red tape, complaints that patients were being shortchanged, and few actual cost savings. Moreover, if earlier government spending programs are any guide, many of the programs the Clinton Administration wants to initiate or expand will prove much more costly than now projected. Another reason to be cautious about the promised spending cuts is that the Clinton plan is top-heavy with revenue raisers, and the government has a history of spending everything it collects and then some.

Revenues should receive a welcome assist from the improvement in the economy that began in the second half of 1992. Because economic growth is among the most powerful generators of revenues, government receipts will probably increase more rapidly than CBO projected in its old baseline estimate, assuming no change in current law. The Administration's tax program, with its arsenal of rate increases and base broadeners, would likely enlarge revenues further. The net revenues collected from the proposals, however, are unlikely to be as great as the Administration forecasts. The main danger of the Administration's revenue raisers is that because they would significantly intensify tax biases against work, saving, and investment, they would prevent the economy from expanding as rapidly as otherwise. The Administration unrealistically assumes that its revenue hikes would have absolutely no adverse economic effects, despite their negative impacts on people's incentives.

With spending exceeding the estimates in the Administration's budget plan, the size of government under the Administration's budget plan will tend to be larger — probably much larger — than the Administration says it will. Revenues will be helped by the economy's current strength, but the Administration's revenue raisers, by discouraging productive activities, will reduce the level and rate of growth of income compared to the expansion that would otherwise occur. On balance, the Clinton budget will do much less to reduce the deficit than the Administration is promising — and may even make it larger. If the Administration and the Congress seek real deficit reduction without slowing the economy's expansion, they need to go back to the budgetary drawing board.

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