

IRET Byline

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Reserve (Slush-) Funds in Budget Resolution Subvert OBRA90

The recently passed concurrent resolution on the budget for fiscal year 1992 establishes so-called "reserve funds" that pave the way for increased spending in five favored areas without running afoul of one of the key spending constraints in the Congressional budget process. The effect of this provision is to make it far easier to increase entitlement spending and taxes than was envisioned under the 1990 budget agreement (the Omnibus Budget Reconciliation Act of 1990 - OBRA90).

Under OBRA90, caps were specified for spending for defense, international, and domestic discretionary outlays. These caps were translated into limits for various budget functions, and became the ceilings for these budget functions in the fiscal year 1992 budget resolution. The OBRA90 rules governing discretionary spending are very restrictive. With minor exceptions, it is not possible to increase discretionary spending above the caps in the budget agreement. If a bill breaching the discretionary ceilings were to pass, it would, under OBRA90, trigger a sequester of other spending in its category to bring the total back in line with the cap.

Projections of outlays for entitlement programs under current law were taken as upper limits under OBRA90,

and these projections became the ceilings for these budget categories in the budget resolution. In contrast with the rules for discretionary outlays, it is possible to pass a bill increasing entitlement spending under OBRA90 if the bill provides for either a tax increase of equal magnitude or a reduction of other entitlements in equal amount to avoid increasing the deficit. Otherwise, the added outlays would trigger an offsetting across-the-board sequester of entitlement spending to keep the deficit constant. However, a bill raising taxes and entitlements would also have to conform to the rules set up under the 1974 Budget Act. In particular, raising entitlement spending could run afoul of the budget resolution outlay ceilings.

A concurrent resolution on the budget sets ceilings on outlays and budget authority for the various budget functions. These functional ceilings are translated into spending allowances for the various Congressional committees. Ordinarily, any bill subsequently reported out by a committee that increases spending above the committee's allowance is subject to a point of order preventing the bill's consideration on the House or Senate floor. The point of order can be overcome by a simple majority vote in the House, the same number of votes the bill needs to pass. However, in the Senate, the bill must achieve a 60-vote supermajority to overcome the point of order. Alternatively, the committee might seek to amend the budget resolution, which requires action by both Houses, a difficult process. The presence of this super-majority point of order in the Senate under the rules implementing the 1974 Budget Act was an important consideration in setting up the OBRA90 enforcement provisions.

What the reserve funds do is create five categories of entitlement spending that may be increased in the future without being subject to the Senate's 60-vote point of order governing breaches in the budget function ceilings. Committees that report out bills to raise spending in the five favored areas will not have to worry about breaching their spending ceilings if the bills have been preceded by passage of, or are accompanied by the reporting out of, a

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bill to increase taxes by an equal amount. The tax increase may be passed before the entitlement legislation or become part of it. In either case, once the revenue source is found, the reserve fund provisions permit the Chairman of the Senate Budget Committee to raise the committees' outlay allowances by whatever amount of spending is contained in the entitlement bills, and permit the Senate to pretend that the corresponding functional outlay ceilings in the budget resolution are higher by the same amount. Thus, such bills may be considered without facing the Senate point of order or formally amending the budget resolution.

The reserve funds are misnamed. They contain no money, and are not spending bills in and of themselves, and so are not in violation of the current OBRA90 limits on entitlement outlays. They are merely procedural devices designed to smooth the way for spending bills in the future. When it comes time to pass specific spending bills in the designated areas, the plan is to accompany or precede the bills with tax increases, conforming to the OBRA90 requirements.

The five designated "funds" or categories of outlay eligible for favored treatment would cover bills relating to: 1) child health, nutrition, and protection; 2) expanded unemployment compensation; 3) health care, including universal health insurance; 4) expanded childhood development services for low-income preschoolers; and 5) mass transit, bridges, roads, and highways.

All of these spending categories rank high on the "motherhood" and "pork pie" scales. The reserve funds set the stage for a series of extremely expensive social spending initiatives and matching tax increases – totalling anywhere from \$50 billion to \$200 billion – designed to bust the budget agreement and embarrass conservative Members of Congress and the President prior to the 1992 elections. The reserve funds will make it easier for the Congress to force the President to veto politically attractive spending proposals if the spending targets of OBRA90 are to be maintained and further tax increases avoided.

During consideration of the budget resolution, Senator Hank Brown of Colorado offered an amendment to restore the power of the anti-spending provisions of OBRA90. The Brown amendment required increases in entitlement spending to be matched by cuts in other entitlements, not by tax increases. This amendment passed the Senate, though it may have done so because it was not expected to survive the conference with the House. The next week, a similar amendment offered in the House by Representative Bill Gradison of Ohio was defeated. The provision was dropped in conference.

The moral of the story is simple. Budget agreements with the Congress are bad for the White House, the economy, and the taxpayers. Budget agreements never work. Not in 1982, when OMB Director Stockman boasted that he had achieved \$3 dollars in spending cuts for each \$1 of TEFRA's anti-growth tax increases, only to find that Congress delivered far less than \$1 in spending cuts in 1982 and took all of that back and more in 1983. Not in 1984, when the "deficit downpayment" consisted mainly of the anti-growth tax increase called DEFRA. Not in 1987, with its revenue-heavy multi-year budget pact whose 1989 revenue target was exceeded by \$25 billion and whose 1989 outlay target was breached by \$150 billion. Not in 1989, with a pact that failed to prevent the huge run-up in spending and deficits in 1990. And certainly not in 1990, when a huge tax increase was adopted, along with a total ban on any net tax relief for five years, only to see outlays and deficits soar, and procedures adopted in the very first budget resolution following the agreement to permit even higher taxes and outlays in the years ahead.

It would be better by far for the President to keep his lips sealed and his veto pen uncapped than to negotiate any more budget agreements with the Congress.

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