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SOCIAL INVESTMENT AND THE BUDGET DEBATE

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Budget politics in America have become a two-legged stool. While congressional Republicans and administration Democrats argue over the size of tax cuts and debt reduction, the third leg of budget policy – social investment – remains too short, imperiling future economic and social stability. Indeed, the recent 10-year budget plans advanced by the leadership of both parties would require substantial cuts in public investment and social services in order to finance tax cuts. But however this year’s budget is patched together, both sides’ proposals signal an intention to continue with the “unbalanced” budget priorities of the past 20 years.

Surplus illusions

The Congressional Budget Office (CBO) has projected total budget surpluses of \$2,896 billion over the next decade, of which \$1,899 billion will come from the expected surplus in the “off-budget” Social Security program, and \$997 billion will come from “on-budget” revenues and programs (**Table 1**). Both sides have proposed to lock up the projected Social Security surplus by using it to pay down the national debt, thus precluding a debate on using that surplus for public investment or other purposes.

It is widely assumed that the non-Social Security surplus is available for tax cuts, new spending, or even further deficit reduction. But where would that \$997 billion surplus really come from? The source of more than 90% of that surplus actually comes from plans to reduce the current level of federal government services, ranging from meat and poultry inspection to educating children in Head Start.

Part of the confusion lies in the misleading use by both Congress and the Clinton Administration of spending numbers automatically “capped” by the provisions of the 1997 budget agreement. These numbers, which appear as “baselines” in the budget documents, do not represent a stable level of funding but rather reduc-

TABLE 1
Projected budget surpluses (in billions)

	1999	2009	Total 2000-09
Total budget	\$112	\$413	\$2,896
Off-budget (Social Security)	\$125	\$235	\$1,899
On-budget (Non-Social Security)	\$(13)	\$178	\$997

Source: Congressional Budget Office.

TABLE 2
Projected discretionary spending (in billions)

	1999	2009	Total 2000-09
<i>Under existing caps</i>	\$582	\$677	\$6,127
<i>Maintenance of current services</i>	\$582	\$752	\$6,722
<i>Difference</i>		\$75	\$595
Defense	\$275	\$349	\$3,132
Nondefense	\$307	\$403	\$3,590
<i>Clinton budget proposal</i>	\$582	\$735	\$6,629
Defense	275	384	3,268
Nondefense	307	351	3,361
Cuts required from nondefense services		\$51	\$229
As percentage		12.8%	6.4%
<i>GOP budget proposal</i>	\$582	\$607	\$5,930
Defense	275	319	3,062
Nondefense	307	288	2,868
Cuts required from nondefense services		\$115	\$722
As percentage		28.6%	20.1%

Sources: Office of Management and Budget, Congressional Budget Office, and Republican Conference Report on the Budget.

tions in real spending below what is necessary to maintain the current level of public services.

The “current services” budget shown in **Table 2** displays a more realistic estimate of spending needed to keep programs operating at their 1999 levels. It is a conservative estimate in that it reflects only expected price changes and not population growth or the increased public investments in human and physical capital needed to support future growth in a more competitive global economy.

As Table 2 shows, within the discretionary spending category, nondefense spending absorbs virtually all of the proposed reductions – the Clinton 10-year budget proposes a slight increase in military spending over current levels, while the Republican’s budget proposes a slightly lower level. In either case, it is nondefense spending that will be cut.

Over the 10-year period in question, the Republican budget would reduce nondefense discretionary spending by 20.1% overall, with the cuts reaching almost 28.6% by fiscal year 2009. The Clinton budget also cuts the nondefense discretionary budget, by almost 12.8% in 2009 and over 6.4% overall for the decade. To complicate matters, the Clinton budget proposal assumes that some domestic spending can be maintained with a series of “offsets” (e.g., superfund tax increase, takeback of tobacco tax revenues from states, increased user fees), whose passage is at best problematic. If those offsets are denied by Congress, and the spending therefore correspondingly reduced, the cuts in current services in Clinton’s budget could be as much as 50% higher than the overall 6.4% projected.

Table 2 shows that the difference between the “capped” and the current services budget is \$595 billion over 10 years. But, as the Center on Budget and Policy Priorities has pointed out, the shortfall is actually much greater for two reasons. First, there will be higher interest costs associated with the higher spending needed to close the gap. Second, the shortfall is greater as a result of the pattern in the 1990s of not budgeting for necessary programs (e.g., the Census), which then get funded as emergencies. These and other items could add roughly another \$290 billion to the gap between the CBO projections and the money needed to maintain current services, eating up almost 90% of the projected non-Social Security surplus.¹

Shrinking social investments

Since the exact composition of discretionary spending cuts is decided in the annual appropriations process, it is not yet certain where the cuts will be made. Clinton’s Office of Management and Budget (OMB), however, has provided some clues. In August 1999, the OMB estimated that the Republican budget, which calls for a tax cut of \$792 billion over 10 years, would require a 50% cut in an array of specific nondefense discretionary programs by 2009 if applied across the board.² Among other assumptions, the OMB assumes that the GOP defense spending projections would have to match its own. The results are shown in the first column of **Table 3**.

But the Clinton Administration is also proposing program cuts, which officials have stated come to 13% of nondefense discretionary spending by 2009.³ The second column in Table 3 shows the results of applying the OMB’s across-the-board spending formula to the 13% spending cut implied by Clinton’s budget.

Thus, where the Republican proposal drops 430,000 children from Head Start, the Clinton budget drops

TABLE 3
Estimated program cuts required by budget proposals, FY2009

	Republican Congressional budget	Clinton Administration budget
Fewer meat and poultry inspectors	4,200	1,092
Job loss in rural development programs	100,000	26,000
Loss of home ownership opportunities	50,000	13,000
Persons affected by foregone upgrade of water and sewer systems	700,000	182,000
Farmers deprived of subsidized loans	16,000	4,160
Dismissed forest rangers	18,000	4,680
Reductions in conservation workers	5,000	1,300
Landowners deprived of technical assistance	370,000	96,200
Women, infants, and children losing nutrition assistance	3,700,000	962,000
Firms losing trade assistance	19,000	4,940
Students in low-income school districts losing education aid	5,900,000	1,534,000
Students cut from reading programs	480,000	124,800
Reduction in maximum Pell Grant	\$1,675	\$436
Students losing work-study opportunities	495,000	128,700
Cuts in aid for special education	\$3,400,000,000	\$884,000,000
Households deprived of weatherization aid	70,000	18,200
Children cut from Head Start	430,000	111,800
Fewer meals served to elderly	124,000,000	32,240,000
Reduced outpatient visits to Native Americans	4,300,000	1,118,000
Reduced inpatient days to Native Americans	189,000	49,140
Native Americans losing dental service	1,300,000	338,000
Native Americans losing mental health services	108,000	28,080
Lost home visits by public health nurses	62,000	16,120
Native American households losing water supply	8,000	2,080
Fewer well baby visits to Native Americans	55,000	14,300
Families losing Section 8 housing aid	1,500,000	390,000
Loss of homes in public housing	500,000	130,000
Families losing housing rehabilitation opportunities	260,000	67,600
Families losing rental housing aid	50,000	13,000
Homeless children losing support services	140,000	36,400
Homeless disabled persons losing aid	110,000	28,600
Homeless veterans losing aid	56,000	14,560
AIDS/HIV-infected persons losing housing aid	27,000	7,020
Cuts in FBI staff	11,400	2,964
Cuts in DEA agents	1,990	517
Cuts in federal prosecutors	1,816	472
Cuts in Border Patrol	4,000	1,040
Dislocated workers denied aid	368,000	95,680
Workers denied training aid	169,000	43,940
Fewer summer jobs for youth	330,000	85,800
Job Corps centers closed	62	16
Fewer OSHA inspections for health and safety violations	18,900	4,914
Workers not provided with aid in recovering illegally withheld back wages	290,000	75,400
Loss of pension benefits to families	\$690,000,000	\$179,400,000
Fewer rescues by Coast Guard	3,000	780
Additional illegal drugs entering country (tons)	35	9
Additional illegal immigrants	3,000	780
Veterans losing health care benefits	1,750,000	455,000
Loss of Veterans Administration jobs	100,000	26,000
Fewer inspections for environmental violations	8,200	2,132
Fewer meals served by FEMA in emergency situations	13,200,000	3,432,000
Fewer Small Business Administration loans	26,000	6,760
Fewer disaster loans	15,000	3,900
Cuts in staff of Inspector Generals (monitoring waste, fraud, and abuse in federal government)	67	17

Sources: Office of Management and Budget and EPI staff calculations.

111,800. Where the Republican budget reduces the number of students in low-income school districts receiving aid by 5.9 million, the Clinton budget reduces it by 1.5 million. Where the Republican budget will result in 4,200 fewer meat inspectors, the Clinton budget leads to 1,092 fewer.

These projections are an indication of the priorities of both the Republican Congress and a Democratic White House. Domestic investment programs – education and training, physical infrastructure, and research and development – presently make up 26% of discretionary spending. Real spending for these areas has dropped from 2.6% to 1.6% of GDP in the 20 years up to 1998. The Republican proposal, and to a lesser extent the Democratic one, imply a readiness to reduce such investments even further, widening the shortfall in what the nation needs to sustain long-term economic growth.

The impracticality of the caps on discretionary spending is painfully obvious in the current struggle over FY2000 spending. To avoid appearing to exceed the caps, Congress has considered an assortment of devious accounting procedures, including the classification of certain kinds of routine spending as “emergencies,” attributing outlays to fiscal year 1999 or 2001, and adding an extra “13th” month to the fiscal year. The practical shortcoming of this jerry-rigged approach is that any reasoned consideration of long-term spending will be inordinately difficult. Instead, gimmicks facilitate eleventh-hour political deals and close out the budgetary process. Discretionary spending is reduced to a political grab-bag instead of an instrument for necessary policies.

In early 1998, the Economic Policy Institute identified a minimum gap of more than \$65 billion between spending needs and spending levels in three domestic investment areas alone, reflecting the steady erosion of spending in recent years.⁴ The realities of these gaps can be seen in dilapidated and overcrowded schools, inadequate training programs, jammed transportation systems, and reduced civilian research and development spending. The investment gap is understated in that it does not include spending on public health, low-income housing, and environmental protection, which also support future growth.

The cost of neglecting public investment will be paid in one way or another. If not now, then in the future – at a higher price and resulting in lower living standards.

Public opinion of national needs

Ironically, despite the conventional wisdom that government spending on such investments and social needs is not popular, the polls taken during the current budget debate have consistently shown a preference for spending on education, health, and other specific national needs over a tax cut.⁵

For example, an ABC/*Washington Post* poll⁶ conducted at the beginning of September asked: “Which of these do you think should be the top priority for any surplus money in the federal budget – cut federal income taxes, put it toward reducing the national debt, strengthen the Social Security system, or increase spending on other domestic programs such as education or health care?” The poll yielded the following results:

Education/Health	37%
Social Security	29%
Reduce Debt	19%
Cut Taxes	14%
No Opinion	1%

It is time for Washington to catch up with the people. The 1997 budget agreement, with its artificial straightjacket on public spending, has not fostered a better public debate over national priorities. Instead, it has given a cover of fiscal respectability to the notion that social investments are expendable

This fall's desperate search by congressional leaders for tricks and gimmicks in order to fit the budget into caps that are too tight illustrates a problem that will only grow worse. Not only are important investments shortchanged, but the quality of health, education, environmental protection, and other programs is undermined by the constant uncertainty of funding.

Congress and the president should scrap these obviously unworkable caps and install a budget process that treats public spending as a means of improving the nation's human, physical, and research and development assets, treating them as capital investments that would be fiscally irresponsible to neglect. Until they adopt this approach, the budget, like a two-legged stool, will not be balanced.

Endnotes

1. Elkin, Sam and Robert Greenstein. 1999. *Much of the Projected Non-Social Security Surplus Is a Mirage: Vast Majority of Surplus Rests on Assumptions of Deep Cuts in Domestic Programs That Are Unlikely to Occur*. Washington, D.C.: Center on Budget and Policy Priorities.
2. Office of Management and Budget. 1999. *Programmatic Impacts in FY 2009 of the Republican Tax Cut*.
3. In a report from the Center on Budget and Policy Priorities entitled *Beyond the Rhetoric: What the Clinton Budget and the Republican Budget Plan Really Propose for Appropriated Programs* (1999), James Horney and Robert Greenstein state: "In recent days, administration officials have acknowledged their plan includes a 13% reduction in nondefense discretionary spending by FY2009, compared to today's levels adjusted for inflation. Their proposal does not represent new or additional spending."
EPI has independently confirmed the 13% estimate with administration officials. Table 3 extrapolates the administration's number to its own budget proposal, based on a 50/13 ratio. In other words, if a 50% cut means a reduction of X, then a 13% cut means a reduction of 26% of X (13/50).
4. Baker, Dean. 1998. *The Public Investment Deficit: Two Decades of Neglect Threaten 21st Century Economy*. Briefing Paper. Washington, D.C.: Economic Policy Institute.
5. Teixeira, Ruy. 1999. *Washington's Deaf Ear: Public Opinion and the National Budget Debate*. Issue Brief. Washington, D.C.: Economic Policy Institute.
6. ABC/*Washington Post* poll, August 30-September 2, 1999.