Budget Spending Essay, Research Paper

Budget Spending

This country has been dealing with a budget deficit for many years now. In an attempt to change this, on June 29, Congress voted in favor of HConRes67 that called for a 7-year plan to balance the Federal Budget by the year 2001. This would be done by incorporating $894 billion in spending cuts by 2002, with a projected 7-year tax cut of $245 billion. If this plan were implemented, in the year 2002, the U.S. Government would have the first balanced budget since 1969. Current budget plans are dependent on somewhat unrealistic predictions of avoiding such catastrophes as recession, national disasters, etc., and include minor loopholes. History has shown that every budget agreement that has failed was too loose. One might remember the Gramm-Rudman-Hollings bill that attempted to balance the budget, but left too many exemptions, and was finally abandoned in 1990.

So after a pain-staking trial for GOP Republicans to create, promote, and pass their budget, as promised on campaign trail 94, Clinton rejected the very bill he demanded. This essentially brought the federal budget back to square one. Clinton thought such a demand on Republicans to produce a budget would produce inner-party quarrels and cause the GOP to implode. Instead, they produced a fiscal budget that passed both houses of Congress, only to be deadlocked by a stubborn Democratic President Clinton. Meanwhile, Clinton bounced back with a CBO scored plan with lighter, less risky cuts to politically

sensitive areas like entitlements. Clinton s plan also saved dollars for education and did not include a tax increase, but most cuts would not take effect until he is out of office, in the year 2001. Although Clinton is sometimes criticized for producing a stalemate in budget talks, the White House points out that the debt has gone down since Clinton took office, with unemployment also falling. Republicans are quick to state that Clinton originally increased taxes in 1993 and cut defense programs, but his overall plan was for an increasing budget without deficit reduction.

Startling Facts about the budget:

As of 1996, the national debt was at an all time high of $5 trillion dollars, with interest running at a whopping $250 billion per year. This equals out to an individual responsibility of more than $50,000 per taxpayer. Nearly 90% of that debt has accumulated since 1970, and between 1980 and 1995, the debt grew by 500%. Currently, the debt grows by more than $10,000 per second, and at current rates, our government is about to reach its breaking point. If that s not enough to scare a taxpayer, by 2002, 60% of government spending will be for entitlements, and by 2012, these programs are projected to take up all government revenue. Not only economic development, but also family income is hurt by debt. With the cost of living going up, it becomes harder to find a job. According to the Concord Coalition, real wages peaked in 1973 and have gone down ever since. If the economy grew as fast as it did in 1950, without a debt, the median family income would be $50,000, compared to the present median of $35,000. As of current fiscal year s budget, the United States government spends $1.64 trillion yearly, $500 billion of that, or 1/3 of the total, is for discretionary spending. This discretionary spending is the target for most cuts, and seems to be the easiest to make cuts in. Overall, the difference between the two parties’ budget plans is only $400 billion. This could easily be trimmed by eliminating tax cut and adjusting the consumer price index to reality. Democrats say the GOP plan is too lopsided, and Republicans criticize the Democrat plan for being unrealistic. A study by the Urban Institute shows GOP cuts will be felt mainly by the bottom 1/5 of U.S. population. This should be more equally spread out across income brackets.

The GOP plan:

By fulfilling campaign promises made by freshman Republican Congressmen to cut government spending, the GOP managed to pass a $1.6 trillion budget resolution by a party-line vote, in both houses of Congress. This budget called for major cuts in education, environmental programs, discretionary spending, and the largest of all: entitlements. 70% of the money to balance the budget under the GOP plan would have come from entitlements. This is because entitlement programs currently take up $301 billion a year. Such cuts had already been partially implemented with the GOP cutting overall spending by 9.1% in 1996 alone.

First, in an attempt to stop the projected bankruptcy of Medicare in 2002, Republicans cut $270 billion overall from the program, with hospital reimbursement cuts being the deepest. Although stabilizing the fund is only expected to cost $130-$150 billion over 7 years, the GOP budget would reform the program to run better, and cheaper, by allowing it to grow at 6% yearly, instead of the current 10%. While both parties agree on premium hikes for beneficiaries, this is a touchy subject for the 38.1 million elderly voters on Medicare. Medicaid, another volatile program, would be cut $182 billion under the GOP proposal. This would entail placing a cap on the program s spending, and passing control of it to the individual state governments. For an estimated 39 million low-income people on Medicaid in 1996, the GOP plan cuts the program far more than Clinton s proposed $98 billion cut. Social Security is another program being cut.

The government has already reduced the outlay for seniors 70 and younger who are on the program, but Republicans want more by increasing the eligibility for Social Security from 62 to 65 for early retirement, and 65 to 70 for standard retirement. Smaller cuts included $11 billion in student loan reductions, $9.3 billion in labor cuts, $10 billion eliminated from public housing programs, and several other numerous disaster relief programs cut. The GOP also wants to eliminate programs initiated by Clinton like the National Service initiative, summer jobs, Goals 2000, and Americorps. Along with terminating unnecessary farm programs, and cutting others by $12.3 billion. Republicans hope to cut the yearly $6 billion that the Federal Government spends on direct subsidies to farmers. Agricultural policies were also reformed and embedded into budget-reconciliation bills.

Clinton s Budget:

Clinton s budget only surfaced after he vetoed the budget passed by Congress, and included shallower cuts, with little or no reform to entitlements. This plan was supported by most Democrats and was used as an alternate to a gutsy GOP budget. Clinton repeatedly trashed the Republican s efforts to make cuts on programs he feels important like student loans, agricultural programs, and entitlements. He accused Republicans of wanting to kill some all together. He has also threatened to veto a Republican plan to reform Medicare called Medical Savings Accounts, unless his programs are left intact. Under Federal law, the President is required to submit budget requests in 2 forms: Budget Authority, the amount of new federal commitments for each fiscal year, and outlays, the amount actually spent in the fiscal year. The plan that Clinton has presented is not only a budget resolution in the form of a campaign document, but also proof of how far the Republicans have moved him to compromise since the they took control of Congress. Most important, it does not readily translate into regular accounting principles used for government programming.

This year s White House budget was a 2,196 page document that the GOP struck down immediately for not cutting taxes enough and neglecting to downsize the government. Among largest cuts within Clinton s plan was the downsizing of 1/5 to 1/3 of all programs that he felt were not a priority to present day government. In addition, he wanted to close loopholes presented to corporate taxation, that would save an estimated $28 billion. He vowed to keep

programs like education, crime prevention, and research or environmental grants. Attention was also placed on discretionary spending, with Clinton cutting a smaller $297 billion compared to GOP s $394 billion cut.

According to the Office of Management and Budget, the President s plan cuts middle-income taxes by $107.5 billion in 7 years, small business by $7 billion, and cuts $3.4 billion from distressed urban and rural area relief. This was to be paid for by a $54.3 billion hike in corporate and wealthy-income taxes, and also in $2.3 billion of tighter EITC (Earned Income Tax credit) adjustments. Although Clinton s plan was expected to cut a whopping $593 billion in 7 years to furthermore produce an $8 billion surplus in 2002, most cuts are long term without a clear goal. Republicans sometimes criticize Clinton for unwillingness to compromise. He has used vetoes and stubborn negotiations to protect personal priorities like education, job training, and environmental programs, but Republicans have also tried using domination to force him to comply. One must remember that President Clinton does have somewhat of an overwhelming power in this debate that Republicans can do nothing about. He is the single person that can veto laws sent to him, and also has the power to call Congress back into session if he is unhappy with the current situation. This was President Truman s “ace in the hole” back in 1948.

Current Reductions:

One of the ways we are currently reducing the deficit includes the introduction of “means testing.” This means that people would get entitlements based on need. The government already has reduced Social Security for modest income seniors’ age 70 and younger, but budget cutters want to broaden that idea. There are 2 major problems with means testing. First, it is considered inherently unfair.

Some might argue that a person might blow all of their income before the entitlement reductions come into place. Second, it might reduce the incentive to work and encourage people to hide their income. For instance, beneficiaries of Social Security, ages 62-64, lose $1.00 yearly in benefits for every $2.00 they earn in income or wages above $8,160 per year. Some say increasing eligibility requirements would solve some problems, and propose raising the age of early retirement from 62 to 65, and standard retirement from 65 to 70. Another touchy subject in budget reduction is the argument that the poor are being left out of savings. According to the Clinton Administration, the GOP budget would cause a family with income of $13,325 per year to lose 11% of their income. United States Treasury Department studies say the bottom 1/5 income families would have net tax increase of an average $12 to $26 under the GOP plan. The top 1/5 income families would receive more than 60% of the tax relief. A HHS analysis states that the GOP plan would also boost child poverty rates from 14.5% to 16.1%, and poor families with children would loose 6% of their income.

Conclusion:

In the end, budget reduction is no easy task. The center of attention for debate on budget cutting is politics, and whoever takes responsibility for reform gets left wide open to criticism. Although Congress and Clinton have spent the past year on debating the budget and the size of the Federal Government, most plans fall back on gimmicks, loopholes, and long-term plans. Even Democrats now agree to downsize the government, but the two parties disagree on how and where. As we trust our elected officials to make decisions in Washington on our behalf, we must show interest and aptitude on the end results.

Countries like Sweden and Canada have successfully reformed fiscal policies. Sweden s government elected to abandon welfare, pensions, health insurance, unemployment programs, family assistance, and child allowances. Their deficit soon fell by 3.5% of GDP in one year alone. Sweden s plan was three times as intense as Congress current plan, while cutting spending in half the time.

As for cuts, everyone must suffer. Older Americans have good reason to protect programs that they have paid into for years, but those programs spend an overall per capita amount of 11 times as much on elderly than that spent on children altogether. The youth are the future of America, and we should protect them too. Currently, poverty in US is 3 times as likely to affect the very young than the very old. By balancing the budget, “interest rates come down, the economy picks up – we will rebound,” says Representative James Greenwood, and everyone should be happy with that.