

Cato Institute Policy Analysis No. 281: How the Budget Revolution Was Lost

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Executive Summary

Despite the dramatic decline in the budget deficit in recent years, federal social spending is now at record levels both in real dollars and as a share of national output. In the past 10 years federal domestic expenditures have risen by 34 percent after inflation. Total nondefense outlays now consume 17.5 percent of gross domestic product, up from 15 percent of GDP in the 1970s and 10 percent in the 1960s.

Almost all of the reduction in the budget deficit over the past decade has been attributable to the "peace dividend" reductions in the military budget. Pentagon expenditures have fallen by \$100 billion and 3 percentage points of GDP since the height of the Reagan Cold War buildup--almost exactly the same amount that the budget deficit has fallen.

So far the Newt Gingrich-led Republican Congress has failed to control the pace of social program expansions. In their first three budgets (FY 1996-98), the Republicans have increased domestic spending by \$183 billion compared to a \$155 billion increase in the three years prior to GOP control of Congress. Not a single cabinet agency has been eliminated. And only a small handful of the 300 federal programs that were targeted for closure--a list that included the National Endowment for the Arts, the Legal Services Corporation, bilingual education funds, urban transit grants, and Goals 2000--has actually been terminated. In sum, as in the Reagan years, Republicans have quickly retreated from the agenda of making government in Washington smaller and smarter.

Introduction

Despite the dramatic reduction in the budget deficit in recent years, federal social spending has now surged to record levels in real dollars and as a share of national output. The domestic spending binge has been camouflaged partly by the very large reductions in military spending in the post-Cold War era. But this study shows that while the defense budget has been shrinking, nearly every domestic agency of the federal government has reaped a robust fiscal windfall over the past 10 years. Here are some indications of the size of that windfall:

- Over just the past 10 years, 1988-97, federal domestic expenditures have soared by 79 percent, from \$622 billion to \$1,113 billion. After adjusting for inflation, this is an enormous 34 percent rise. Over that same period, family income adjusted for inflation has grown by only 9 percent.
- Even with strong economic growth in recent years, total nondefense expenditures now consume 17.5 percent of gross domestic product (GDP). This is up from 16.5 percent of GDP devoted to nondefense programs in the 1980s, 15.0 percent in the 1970s, and 10.0 percent in the 1960s. There has never been a period in American history when nondefense expenditures consumed a larger share of national output than they do today. [\[1\]](#)
- Social programs now constitute 68 percent of our \$1.7 trillion federal budget, with 15 percent devoted to interest and 16 percent to national defense. Never before has defense spending been a smaller component of the federal

enterprise than it is today.

- Three programs account for most of the growth of the federal budget in the 1990s: Medicare, Medicaid, and welfare. In constant 1995 dollars, since 1989 real Medicare spending has grown by \$69 billion or 66 percent; Medicaid spending has grown by \$47 billion or 112 percent; and welfare spending has climbed by \$93 billion or 72 percent. If the current pace of growth in entitlement spending continues, by 2015 entitlements will eat up all federal revenues.
- So far the Republican Congress has not slowed the pace of domestic program expansion. In their first three fiscal budgets (FY 1995-98), the Republicans have increased domestic spending by \$183 billion. In the three years prior to Republican control of Congress, domestic spending rose by only \$155 billion.
- The five-year spending total from 1998 to 2002 projected under the "historic" budget deal of 1997 is \$9 trillion. ^[2] This is \$1.5 trillion more than was spent the previous five years (1993-97), and \$2.5 trillion more than the five years before that (1988-92).

The impressive reduction in the budget deficit since the end of the 1980s has had nothing to do with so-called neglect of social programs. Nor is the decline in red ink a result of the two income tax rate increases enacted in 1990 and in 1993. Federal revenues have grown at a slightly slower pace in the 1990s than they did in the 1980s when income tax rates were reduced. ^[3] The primary explanation for the swing in the deficit over the past 10 years has been a sustained downsizing of the military. From 1988 through 1997 military expenditures have fallen from 6 to 3 percent of GDP. Over that same period, the deficit as a share of GDP has fallen from 3 percent to 1 percent. The end of the Cold War has yielded a large enough peace dividend for Congress and the White House to simultaneously finance a rapid buildup of domestic programs and gradually reduce the budget deficit.

All this new spending on social programs has occurred at a time when both parties proclaim to favor making government smaller and smarter. House of Representatives Speaker Newt Gingrich has triumphantly declared that the 1997 budget deal is the final delivery on the GOP's 1994 Contract with America. President Clinton continues to boast that "the era of big government in America is over." Both are wrong. In fact, the \$1.7 trillion that Washington will spend next year is more in real dollars than the federal government spent cumulatively from 1800 to 1940. The sad truth is that the 1997 budget deal is further evidence that neither party in Washington is committed to making government smaller.

The Era of Big Government: From Nixon to Clinton

Each of the past six presidents (from Nixon through Clinton) has come to Washington promising to cut taxes and rein in a stampede of federal expenditures. (See box.) Only President Reagan cut taxes significantly. Presidents Nixon, Bush, and Clinton raised taxes sharply. Thirty years ago, the average family paid 20 percent of its income in federal taxes; today that same family pays 29 percent. ^[4]

The surest way to avoid . . . higher taxes is for the Congress to join me in a concentrated effort to control federal spending. --
Richard Nixon

We must begin to limit the rate of growth of our budgetary commitments in the domestic assistance area to sustainable levels. --Gerald Ford

I intend to cut down the expenditures of government programs enough to bring about a balanced budget by 1981. I am deeply committed to this goal. --Jimmy Carter

Collectively, the proposals we are making in this budget can stop the excessive growth of federal spending in its tracks and put the budget deficit on a permanent downward path. --
Ronald Reagan

I am working to protect the American taxpayer against the big spenders. --George Bush

We must continue to cut the deficit until we eliminate it completely and balance the budget. --Bill Clinton

More important, the government grew significantly from Nixon's presidency through Clinton's first term. Total outlays adjusted for inflation doubled from 1969 to 1997. Over this period, federal outlays have wandered between 19 and 24 percent of GDP. It is instructive to contrast the growth path of military versus domestic spending over this period. (See Figure 1.) Pentagon expenditures vacillate dramatically over this period from president to president and generally reflect the national security issues confronting the nation at the time. As a general rule, military spending has risen during Republican presidencies and fallen during Democratic presidencies.

Figure 1
Federal Defense vs. Domestic Expenditures

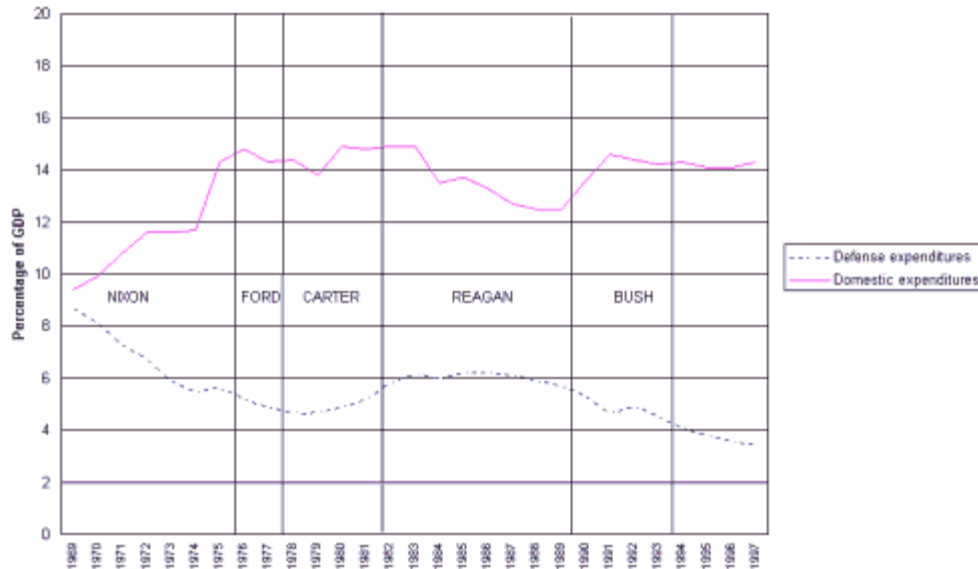
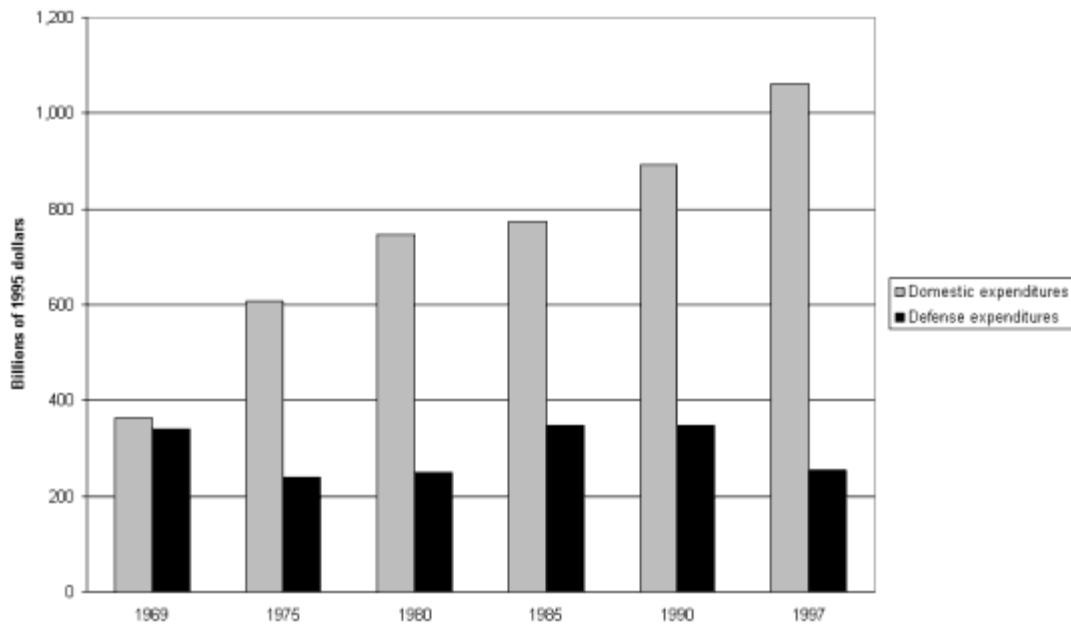


Figure 2
Changing Federal Budget Priorities



There are no such fluctuations in the domestic budget, however. Rather, what emerges is a pattern of gradually escalating outlays for civilian agencies. To his credit, Ronald Reagan did temporarily restrain nondefense expenditures, which fell from 17.5 percent of GDP in 1982 to 15.7 percent by 1988. But by the beginning of the Bush years, social programs again soared to levels higher than they had ever reached prior to the Reagan presidency. Since 1969, total domestic expenditures (in 1995 dollars) have tripled, from \$370 billion to \$1,100 billion, but military expenditures have fallen, as shown in Figure 2.

Budget Policy in the 1990s: Reaganomics in Reverse

The single defining event over the past 25 years that has most substantially affected federal budget policy has been the end of the Cold War. The defeat of the Soviet threat ended the Reagan administration's massive \$2 trillion defense rearmament in the 1980s. That military buildup was financed mostly through deficit finance. In fact, the primary explanation for the unprecedented \$200 billion deficits in the 1980s was the rapid escalation of the Pentagon budget.

Over the Reagan years (from 1981 to 1988, the peak of the military buildup), real defense spending surged by 32 percent. Real domestic outlays grew by just 4 percent. During the Bush and Clinton years (1988-97), these budget policy priorities have been almost precisely reversed, as shown in Figure 3. The real defense budget has fallen by 28 percent; domestic outlays have swelled by 35 percent. Yet somehow the myth prevails that over the course of the past decade, social welfare programs have been shortchanged.

Figure 4 breaks down expenditures for every major cabinet agency in the Reagan and post-Reagan years. Here we can see even more vividly the complete reverse direction of funding from the 1980s to the 1990s. Virtually every agency that had its budget cut in the 1980s has had funding fully restored in the 1990s. For example, the Department of Housing and Urban Development budget fell by 5 percent in the 1980s and has risen by 20 percent in the 1990s. The Education Department's budget fell by 21 percent in the 1980s but has risen by 18 percent since. The Commerce Department's budget fell by 26 percent in the 1980s; that budget has been more than replenished with a 27 percent rise in the 1990s. The only cabinet agency whose budget has been cut in the 1980s and the 1990s is the Department of Agriculture.

Figure 3
Budget Priorities: 1980s vs. 1990s

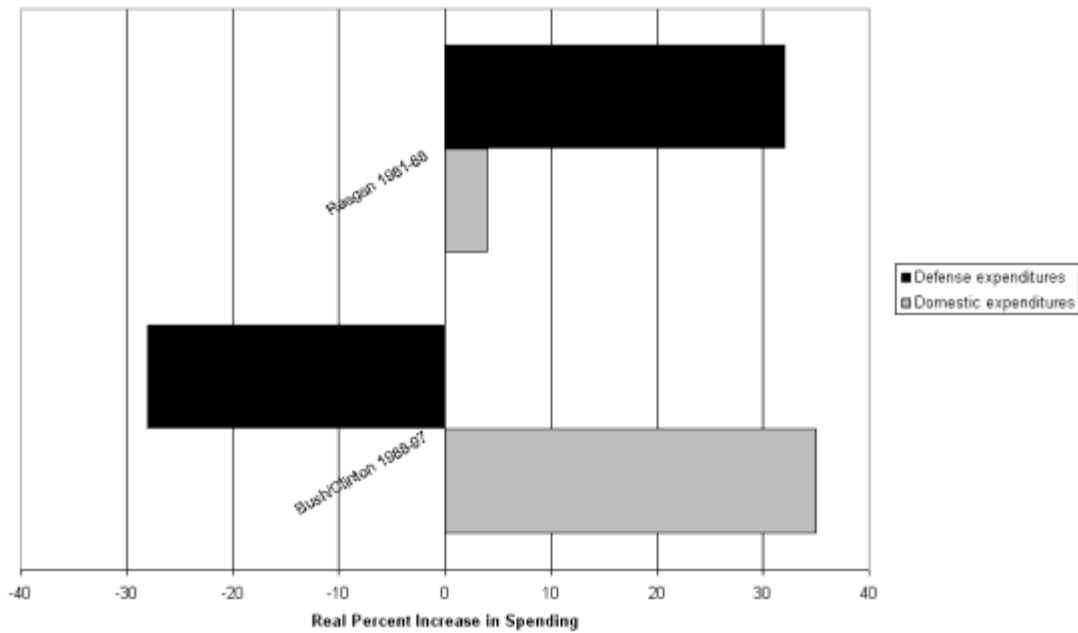
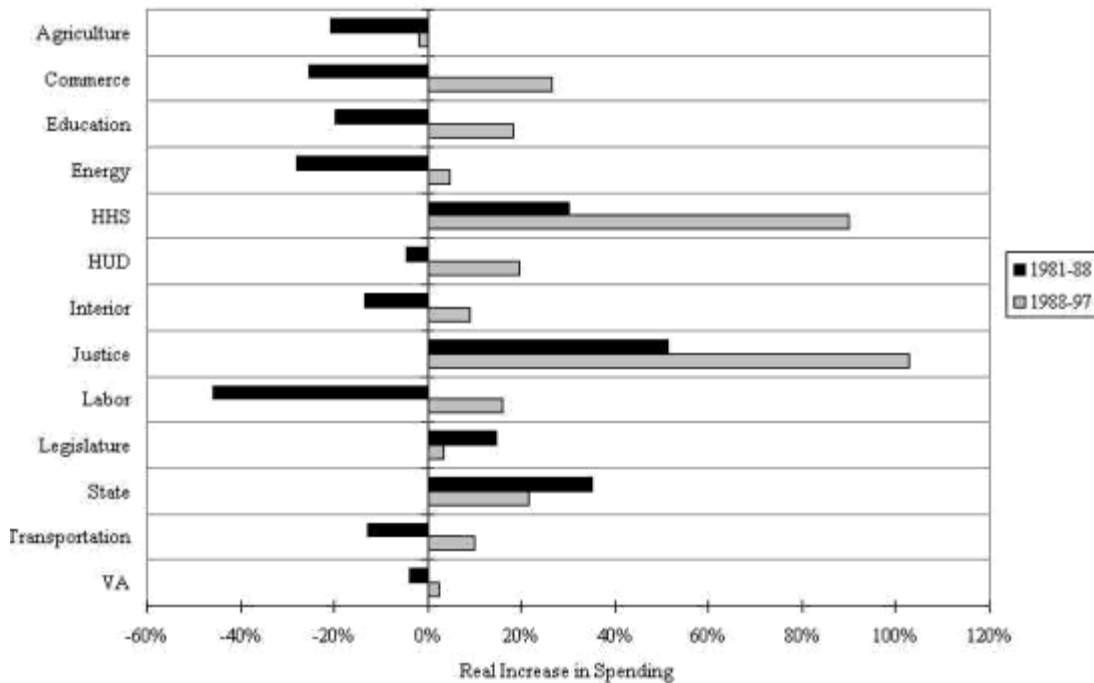


Figure 4
Where the Money Flows: Reagan vs. Bush-Clinton



Under Bush and Clinton thus far, federal nondefense expenditures have grown at well over twice the rate of inflation, as shown in Table 1. If nondefense expenditures had grown only at the rate of inflation since 1988, this year the federal government would produce a \$260 billion budget surplus, rather than an \$80 billion deficit.

The share of federal outlays devoted to national defense has now reached an all-time low. This year an estimated 16.5 percent--or just one in six dollars spent in Washington--will be devoted to national defense. Roughly 15 cents on the dollar will go to pay interest on the debt. The remaining 68 cents will pay for social programs. By 2002, domestic agencies will receive 72 cents of every dollar spent in Washington. Throughout most of U.S. history, well over two-thirds of the federal budget has funded national defense activities. (See Figure 5.)

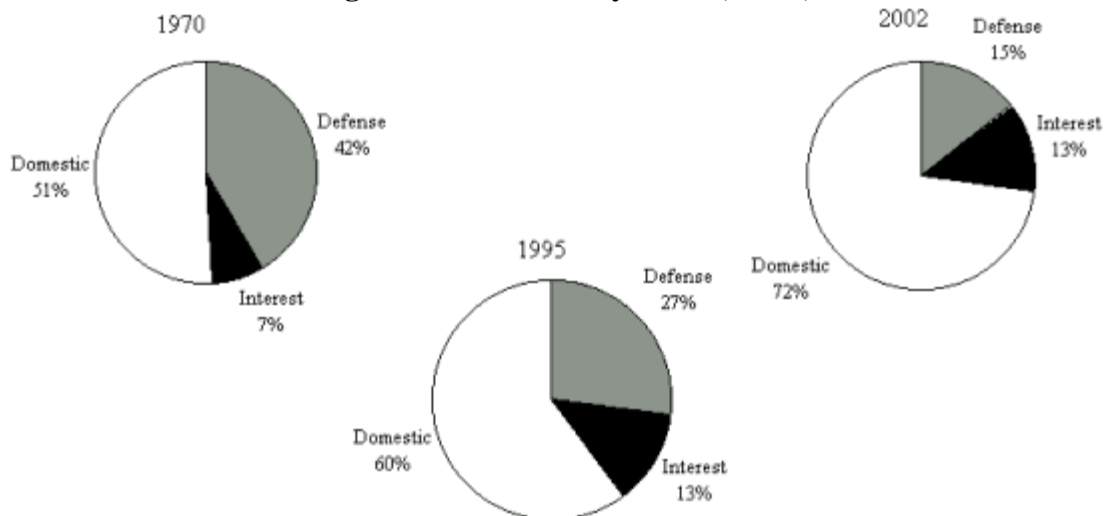
A strong case can be made that with the decline of the communist threat, national defense spending could

be cut still further without jeopardizing national security. The federal government now spends more on military expenditures than do all of the major European NATO nations, Japan, and China combined. [\[5\]](#) Much of the Pentagon budget now finances activities that are of dubious value to U.S. national security--including funding U.S. troops in Bosnia, the large U.S. presence in East Asia, pork-barrel weapon system projects, and the ever-increasing amount of corporate welfare in the military budget. An estimated \$5 billion to \$10 billion of Pentagon spending now funds domestic activities, ranging from corporate welfare programs, to environmental protection, to breast cancer research. [\[6\]](#)

Table 1
Nondefense Outlays (\$ billions)

Year	Actual	Actual Real 1995	Real Increase (%)
1988	774	973	
1989	840	1,014	4.2
1990	953	1,106	9.1
1991	1,051	1,165	5.3
1992	1,083	1,165	0.0
1993	1,118	1,180	1.3
1994	1,180	1,208	2.4
1995	1,244	1,244	3.0
1996	1,295	1,266	1.8
1997	1,355	1,289	1.8
1998	1,426	1,321	2.5
Total			35.8%

Figure 5
Percentage of Federal Outlays: 1970, 1995, 2002



The point here is that national defense, the most significant area of the federal budget where Congress has an unambiguous constitutional authority to spend money, is virtually the only area of the budget that is shrinking. Most of the fastest growing spending programs--from education, to job training, to health care, to income transfer programs--are those with the murkiest constitutional authority. These programs certainly cannot be found in the Constitution under the enumerated powers of the federal government.

Whither the Safety Net?

It has almost become a cliché that Washington's fiscal problems are a result of runaway entitlement spending. ^[7] From 1981 through 1989, income transfer payments increased by \$103 billion in real terms, or 19 percent. This was tight restraint compared to their growth during the Bush and Clinton years. Between 1989 and 1997 these income transfer programs have grown twice as fast, or 41 percent, to \$963 billion. (See Figure 6.) This is despite the persistent, but unfounded, claims by supporters of the 1990 and 1993 budget deals that airtight spending caps would be imposed on entitlements.

It is sometimes argued that federal safety net programs have been eviscerated in recent years in order to try to balance the budget. ^[8] Critics of congressional Republicans charge that the GOP has aimed the budget knife at programs that assist the poor. ^[9] In reality, welfare spending has been one of the fastest growth components of the budget in the 1990s. Figure 7 shows that every one of the eight major federal low-income support programs has a substantially larger budget today than eight years ago.

The good news is that spending on welfare programs has slowed considerably for the past two years as an expanding economy, the new federal welfare law, and state welfare reform initiatives move more recipients off welfare into work. ^[10] But even the GOP welfare reform bill enacted last year allows welfare expenditures to rise under every program. ^[11] Moreover, if we include state welfare expenditures in the analysis, we find that over the past 10 years (1988-97), aggregate welfare expenses have doubled, from \$190 billion to \$405 billion. In fact, 1993 was the first year in American history when aggregate government welfare payments exceeded total spending on national defense. By 2002, total state and federal welfare expenditures are projected to reach nearly twice the level of defense outlays.

Federal spending on senior citizens remains a growth component of the budget. From 1989 to 1996 combined Medicare and Social Security outlays rose from \$386 billion to \$519 billion in 1995 dollars, a 34 percent rise. Medicare spending has galloped ahead at a 9.5 percent per year rate in the 1990s. Social Security and Medicare combined now swallow up one of every three dollars at the federal level. When the baby boomers enter retirement, those programs will consume close to half the entire budget.

In recent years the left has complained of a drought of budget authority for so-called investment spending. This category includes programs ranging from education to environmental protection, job training, highways, and research and development. There is, of course, substantial debate over whether many of those domestic programs should be considered investments at all. To be an investment a program must yield a net positive rate of economic return relative to the cost of the taxes paid to support that program. This is doubtful with many federal domestic agencies, such as the U.S. Department of Education.

Figure 6
Entitlement Spending: Reagan through Clinton

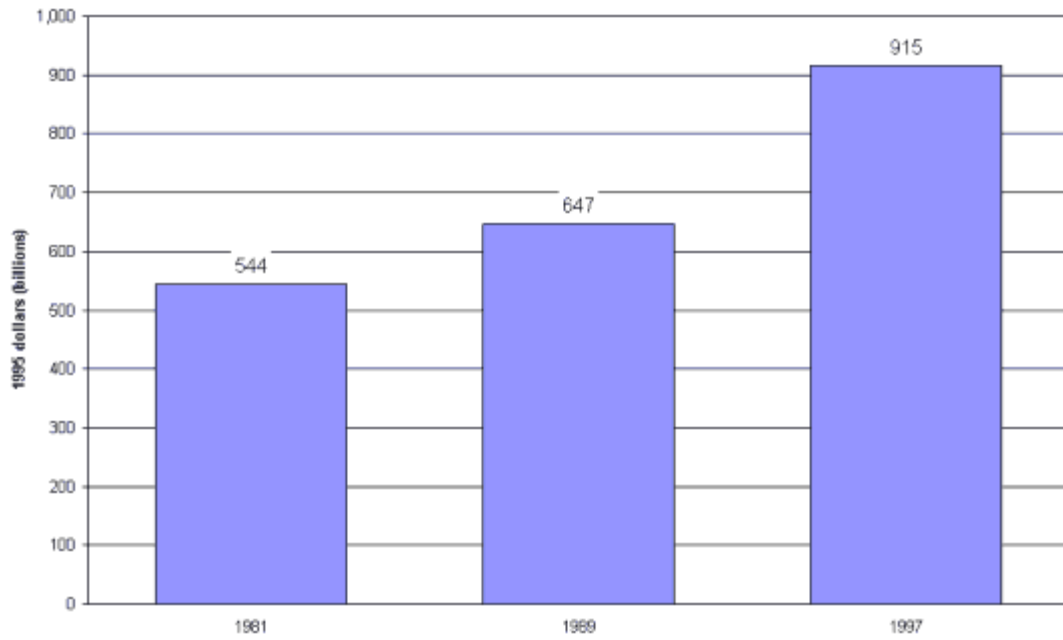


Figure 7
Spending on the Poor: 1989-96

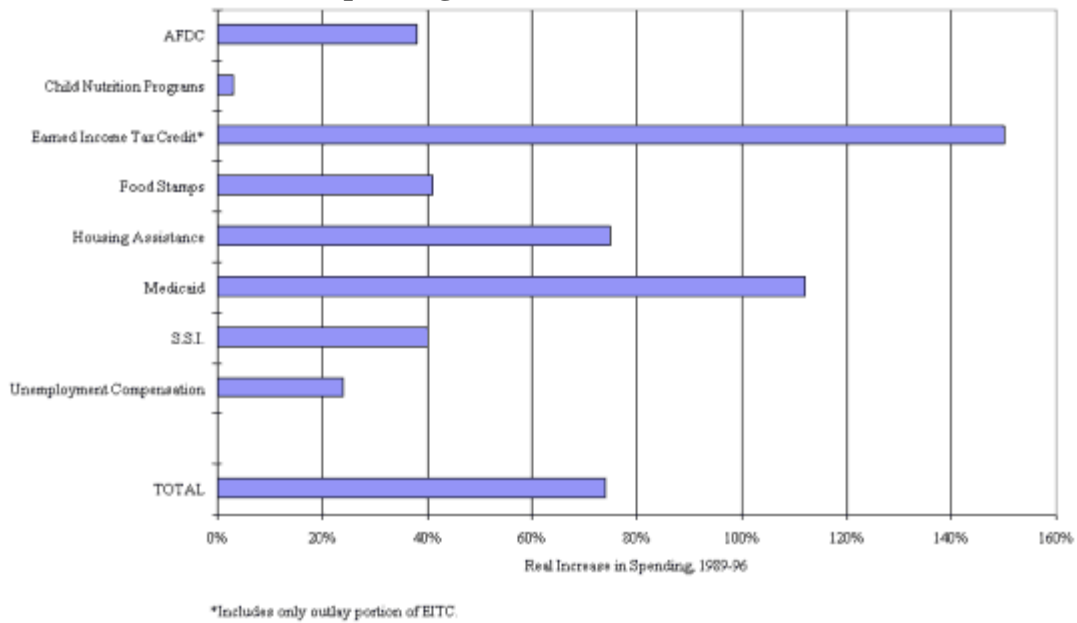
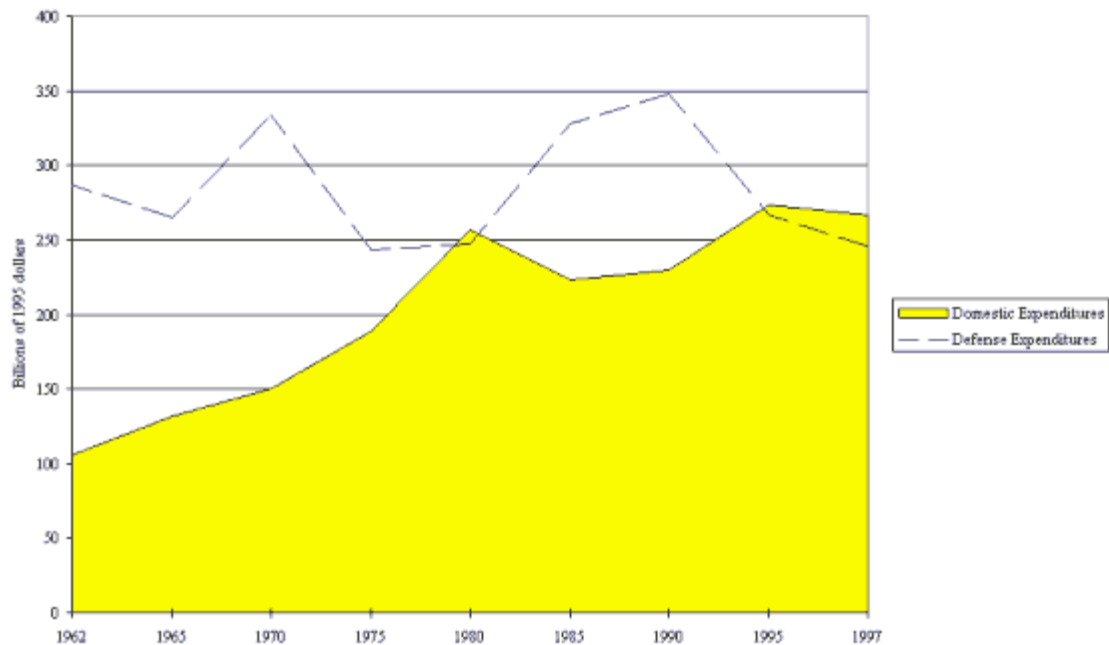


Figure 8
Federal Discretionary Spending



Whether they are investments or not, the programs' budgets are holding steady. The *Wall Street Journal* recently reported that domestic discretionary programs are suffering from a "spending squeeze." [12] Yet Figure 8 shows that since 1985 domestic discretionary programs have grown slightly even after adjusting for inflation. This year domestic discretionary spending will exceed defense spending. The gap will widen between domestic discretionary and defense spending in each of the five years of the 1997 budget deal. There were only two other years in American history when domestic discretionary outlays exceeded military outlays, 1979 and 1980.

Spending constituencies have complained that the 1997 budget deal would cut real domestic discretionary spending by roughly 10 percent in real terms by 2002. Most of those cuts, however, would occur in 2001 and 2002. If the history of the 1990 and 1993 budget packages is any indication, those targets will not be met. As Rep. David Obey (D-Wis.) put it truthfully, "You can't get Republicans" to approve those spending reductions, "much less Democrats." [13] The domestic spending boom is likely to continue at least through 2000.

Promises Made, Promises Broken: The Republicans' Budget Record

What has happened with fiscal policy since 1995 when Republicans took control of the House and Senate for the first time in 40 years? Certainly the revolutionary rhetoric of the early days of the 104th Congress established lofty expectations. The Contract with America called for a dramatic reduction in the size of government and a shift in spending priorities. Shortly after the 1994 election, Gingrich triumphantly declared that Republicans would "radically transform the way government works by Easter."

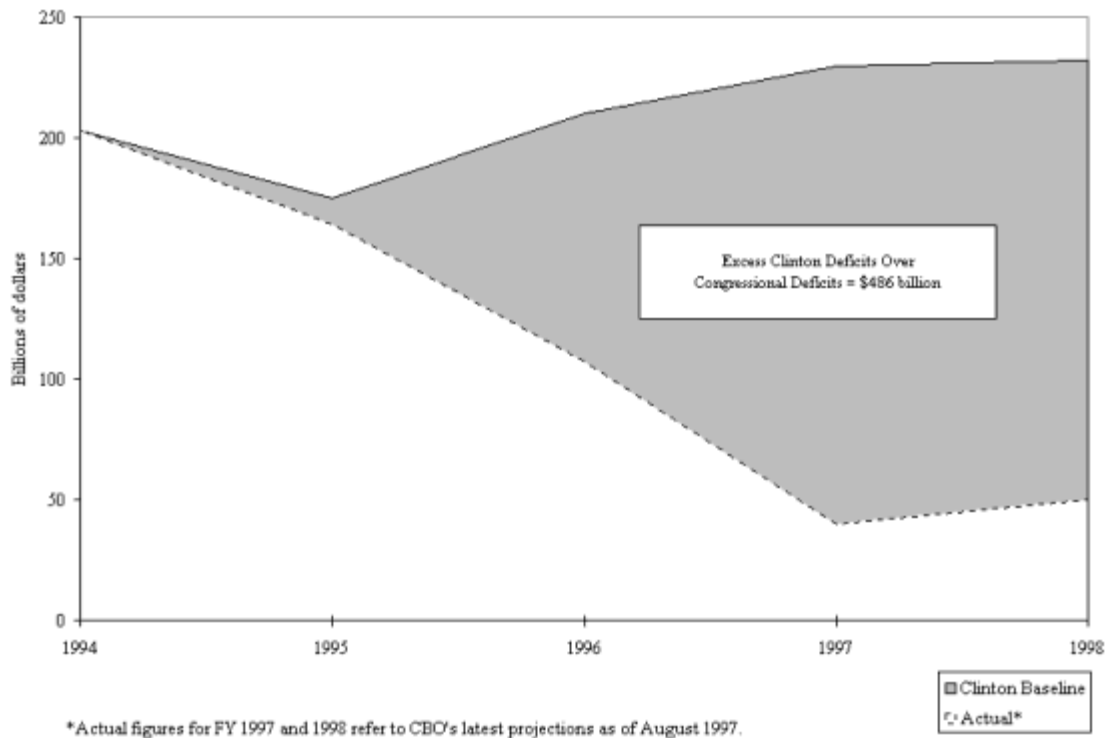
To be sure, the GOP did grind out some impressive accomplishments in its first year. [14] Congressional Republicans cornered President Clinton into committing to a balanced budget by 2002. Congress enacted the first credible welfare reform package since then-President Lyndon B. Johnson launched the War on Poverty 35 years ago. The 1995 farm bill, while still deeply flawed, was the most market-oriented overhaul of the system in many years. Moreover, since November 1994, the economy has accelerated and there has been a record bull market on Wall Street. The Republican Congress also is poised to pass the first federal tax cut since 1981.

Arguably, the most tangible achievement of the congressional Republicans and President Clinton has been the dramatic decline in the budget deficit since Republicans took control of Capitol Hill. [15] Figure 9 compares the budget deficit path that the GOP inherited in April 1995 with the current deficit path. In just

three years the 104th and 105th Congresses have slashed the deficit by two-thirds, although most of the progress is due to continued reductions in defense spending and a surge of revenues in the past two years.

Certainly the deficit reduction is not from reductions in social spending, which has actually accelerated under the GOP Congress. Republicans have now approved three budgets (FY 1996-98). Over that period, total nondefense expenditures will have surged by \$183 billion. In the three years before the GOP took over Congress nondefense outlays grew by \$152 billion.

Figure 9
Federal Deficit: Divergent Paths



The trend is in the direction of budget accommodation. In 1995 Republicans increased spending by \$48 billion; in 1996, by \$63 billion; and now the 1997 budget will rise by a minimum of another \$70 billion. The \$70 billion figure is in reality a lower bound estimate because every year there are multi-billion-dollar emergency supplemental spending requests to help victims of floods, earthquakes, hurricanes, and other natural disasters. Domestic spending rises by 5.4 percent in 1998, or twice the inflation rate, under the bipartisan budget deal.

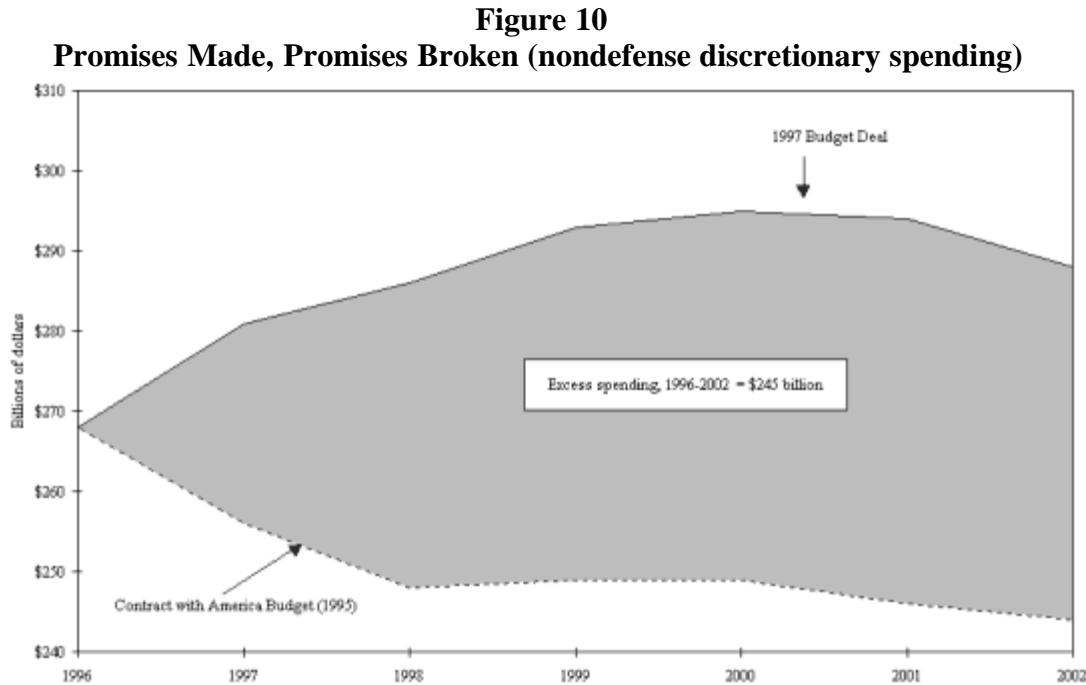
To camouflage the escalation of spending, Republicans have reverted to the deceptive rhetoric of current services baseline budgeting--a practice Republicans ridiculed as a farce when in the minority. The 1996 GOP platform calls baseline budgeting "a deceptive and reprehensible shell game." By adopting the language of baseline budgeting, Republicans can claim hundreds of billions of dollars of savings over the next five years, when in reality the federal budget will grow by \$220 billion in that period.

The 1997 budget deal also resorts to the time-honored tradition of front-loading spending increases and back-loading, several years later, spending reduction promises. To get to a balanced budget, spending would rise by \$70 billion in 1998, \$61 billion in 1999, \$56 billion in 2000, \$48 billion in 2001, and just \$32 billion in 2002. Republicans in the 105th Congress have promised that future Congresses will exercise a level of fiscal restraint that they themselves will not.

The GOP's record on the budget has fallen far short of the Contract with America's promises. In April 1995, Budget Committee chairman John Kasich (R-Ohio) muscled through the House of Representatives the Contract with America budget plan. It was a towering achievement by Washington standards. Three

cabinet departments--Commerce, Education, and Energy--were to be eliminated. Hundreds of small government programs and several large ones--from the National Endowment for the Arts, to mass transit grants, to the federal helium reserve, to the peanut subsidy program--were to be canceled. In short, it would have dramatically halted the government's fiscal expansion of the past 40 years.

Unfortunately, Figure 10 shows that actual spending has far exceeded those projections. The 1997 budget deal allows domestic discretionary spending to grow by \$215 billion more than had been agreed to in that first GOP budget.



In defense of Republicans, it is true that expenditures on social programs would have been about \$20 billion lower this year and next had President Clinton not vetoed market-oriented reforms in Medicare and Medicaid two years ago. Republicans cannot single-handedly rein in spending on these so-called entitlement programs. Changing the law on public benefits requires the president's signature. On the other hand, Republicans have voted to expand existing entitlements and to create new ones. For example, the budget deal permits at least \$16 billion in new government health care programs for children through 2002.

Representative Kasich valiantly defends the Republican budget record by showing that total federal spending as a share of national output is falling--and is expected to continue to fall over the next five years to its lowest level since the mid-1970s. But again, this progress occurs exclusively because of a continuing sharp decline in military spending. Total outlays will have fallen from 21.1 to 20.6 percent of GDP between 1995 and 1998. All of that half a percentage point decline is attributable to defense cutbacks. Domestic spending has actually grown at a slightly faster pace than the U.S. economy over the past three years.

Many areas of the budget that Republicans once sought to cut are now actually expanding. Two years ago the budget resolution called for the elimination of the Department of Education. This year Republicans approved a 1998 budget giving education programs a massive 11 percent funding increase. Two years ago the Energy Department was to be shut down. This year, the GOP will allocate more than \$15 billion for energy programs.

Republicans also refuse to end the scam of foreign aid. Foreign aid funds are completely counterproductive in generating economic development. [\[16\]](#) They are also intensely unpopular with the voters. Yet the budget deal allows a slight increase in foreign aid funds. In March, House International

Relations Committee chairman Ben Gilman convened a hearing on the future of foreign aid. Seven of eight witnesses selected to testify argued *in favor* of more funding. Six of them were direct or indirect beneficiaries of foreign aid: the American Israel Political Action Committee, the Irish National Caucus, Africare, World Vision, the American League for Exports and Security Assistance, and Bechtel Corp. As the *Investor's Business Daily* reported, "The free enterprise viewpoint on foreign aid got a better hearing when the Democrats ran Congress." [\[17\]](#)

The story is the same when it comes to federal subsidies to corporations. In 1995 House Republicans pledged to "wage a sustained attack against corporate welfare in the budget whenever and wherever they could find it." Last year spending on 55 of the most egregious examples of corporate pork *increased* by 1.5 percent. [\[18\]](#) A few Republicans in Congress--including Sens. Sam Brownback (Kans.), John McCain (Ariz.), Fred Thompson (Tenn.) and Reps. John Kasich (Ohio) and Dan Miller (Fla.)--have crusaded to get business off the dole. Unfortunately, few others have shown much interest in eliminating the Export-Import Bank, the Department of Commerce Manufacturing Extension Partnership, sugar and peanut subsidies, and the hundreds of other programs that provide taxpayer subsidies to corporations.

Nor can this spending blitz be blamed primarily on the White House. Throughout the Reagan years, Republicans complained that it was Congress (then controlled by Democrats), not Reagan that appropriated every dime of that \$2 trillion of deficit spending. Now that they themselves control Capitol Hill, they argue that it is President Clinton, not Congress that is doing the spending. But only Congress can appropriate funds. The fact that the federal government continues to misappropriate billions of dollars every year for the Department of Energy, the Department of Commerce, foreign aid, and corporate welfare must be blamed primarily on the party that controls Congress: the Republicans.

Republicans clearly have had important achievements--not least of which has been forcing both parties to commit to a balanced budget. But the critical question in assessing the Republican record on the budget is this: Is the government smaller than it would have been if Democrats had retained power? The unsatisfying answer is "probably, but not by much." Next year the federal government will spend close to \$1.7 trillion. If the Democrats had never lost Congress, next year the federal government would also spend close to \$1.7 trillion. The size and shape of government in Washington have not been fundamentally altered.

Immortality in Washington

It has been said that the closest thing to immortality on this earth is a federal government program. Republicans promised to alter this seemingly immutable law of politics. As Speaker Gingrich stated in 1995, "Republicans want to prove that we can end programs, not just start them." To their credit, Republicans have eliminated some of the most unproductive and in some cases counterproductive programs in the federal budget. Appropriations Committee chairman Bob Livingston (R-La.) points to 297 programs that have been exterminated in the past 30 months. [\[19\]](#) Unfortunately, most of the 297 terminated programs have price tags of less than \$1 million--a rounding error in Washington. Hence, the total savings from program eliminations is roughly \$3 billion--out of a \$1.7 trillion budget.

Table 2
Program Terminations in Contract with America Budget (\$ millions)

	<i>1995</i>	<i>1997</i>	<i>% Change</i>
Departments			
Department of Commerce	\$3,401	\$3,808	12.0%
Department of Education	\$31,322	\$28,340	-9.5%
Department of Energy	\$17,617	\$15,423	-12.5%

Agencies, Boards, Commissions, and Authorities			
Economic Development Administration	\$350	\$453	29.4%
International Trade Administration	\$271	\$261	-3.7%
Minority Business Development Agency	\$42	\$36	-14.3%
Federal Transit Administration	\$1,257	\$923	-26.6%
Agency for Health Care Policy & Research	\$133	\$95	-28.6%
Corporation for National and Community Service	\$426	\$504	18.3%
Corporation for Public Broadcasting	\$286	\$260	-9.1%
Appalachian Regional Commission	\$189	\$198	4.8%
Federal Maritime Commission	\$19	\$14	-26.3%
Tennessee Valley Authority (area & regional development)	\$258	\$117	-54.7%
Arts in Education Program	\$11	\$9	-18.2%
Manufacturing Extension Partnership	\$40	\$98	145.0%
DOT's Minority Business Resource Center	\$2	\$5	150.0%
Intelligent Transportation Systems	\$143	\$113	-21.0%
Amtrak subsidies	\$806	\$552	-31.5%
Northeast Corridor Improvement Program	\$200	\$179	-10.5%
Local Rail Freight Assistance	\$16	\$7	-56.3%
Low Income Home Energy Assistance	\$1,419	\$1,097	-22.7%
Trade Adjustment Assistance	\$268	\$265	-1.1%
Woodrow Wilson International Center for Scholars	\$6	\$6	0.0%
Clean coal technology program	\$243	\$244	0.4%
National Endowment for the Arts	\$176	\$128	-27.3%
National Endowment for the Humanities	\$180	\$130	-27.8%
Interior Department and USDA land acquisition	\$268	\$183	-31.7%
Goals 2000	\$231	\$688	197.8%
Impact Aid Payments for Federal Property (Education Dept.)	\$16	\$18	12.5%
Bilingual Education Instructional Services	\$117	\$157	34.2%
Immigrant Education	\$50	\$100	100.0%
Howard University Academic Program	\$210	\$192	-8.6%
Star Schools	\$25	\$30	20.0%
Javits Gifted and Talented Education	\$5	\$5	0.0%
Eisenhower Regional Consortium	\$15	\$15	0.0%
International Education Exchange	\$3	\$5	66.7%
School-to-Work Opportunities State Grants and Local Partnerships	\$82	\$504	514.6%
Veterans Employment Program	\$8	\$7	-12.5%

HOPE Grants	\$75	\$86	14.7%
Legal Services Corporation	\$429	\$257	-40.1%
Community Development Block Grants	\$4,333	\$4,837	11.6%
Subtotal	\$12,608	\$12,778	1.3%

After three years of GOP control of Congress, there is not much of consequence that the government was doing two years ago that it is not still doing today. Table 2 provides a listing of the major programs that were slated for extermination in the Contract with America budget. If Congress would recommit itself to defunding these programs and departments, the savings would be well over \$40 billion a year.

That is just a start. Nearly \$100 billion a year is spent on domestic programs that have been identified as candidates for termination by such independent agencies as the Congressional Budget Office, the General Accounting Office, and the Grace Commission, and even by President Clinton himself in the budget submissions during his first term. They survive, not because they serve any national interest, but because of political or parochial considerations.

A Shrinking Government Workforce?

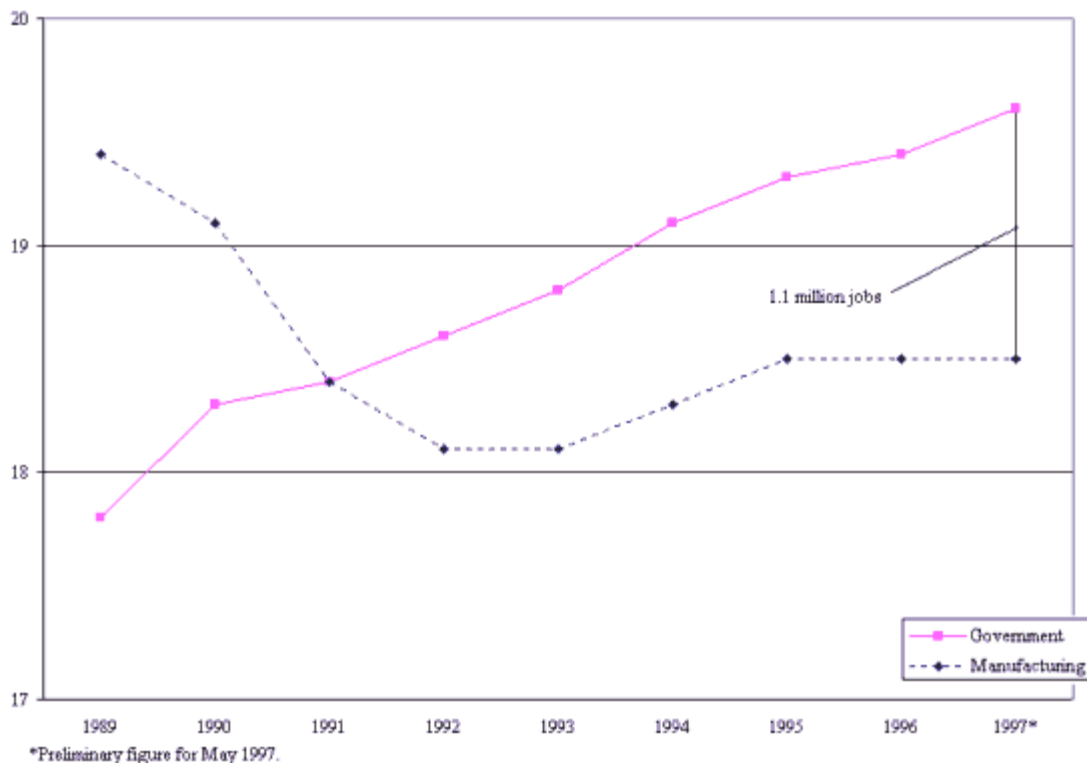
President Clinton and Vice-President Gore claim that federal employment has plummeted to its lowest level since the days of the Kennedy administration. These numbers suggest that the federal government is becoming leaner and more productive. The White House would seem to be well on its way to "reinventing government" in the 1990s. Unfortunately, the White House claim is untrue. Today there are 400,000 more federal workers than there were 35 years ago when Kennedy was president. In November 1963 there were 2.3 million federal employees. As of the end of 1996 there were 2.7 million.

It is true that in the 1990s *federal* employment has fallen. Bureau of Labor Statistics (BLS) data show that the federal workforce has contracted by 6 percent since January 1993, a reduction of 180,000 jobs. In Washington, D.C.--where reductions in the rate of growth are considered cuts--any actual cut (even just 6 percent) is a genuine achievement.

But as with the rest of the story told in this study, virtually all of those reductions have been in one area: the military. ^[20] Between 1993 and 1996 Department of Defense civilian employment has fallen by 160,000 or 18 percent. DoD employment has fallen from 32 percent of total federal employment in 1989 to 27 percent today. The cuts in defense employment have been so deep, in fact, that Postal Service employment now exceeds civilian DoD employment for the first time since before World War II. Nine of 10 of the federal jobs eliminated over the past four years were DoD jobs. This leaves a reduction of less than 20,000 in the bureaucracy of all other agencies--or a 1 percent cut.

The official government employment statistics actually understate the growth of federal civilian employment in the 1990s. According to the *Wall Street Journal*, "Federal personnel reductions aren't as impressive as they first appear. Of the . . . civilians lopped from the federal payroll since January 1993, 17% were part-timers and 13% were temporary employees. At the Environmental Protection Agency, 89% of those let go were temps."

Figure 11
Growth of Government Employment vs. Manufacturing Employment, 1989-97



The BLS employment statistics also ignore the rapid growth rate of contracted labor, which has become a kind of shadow government. As the *New York Times* pointed out in March 1996, of those federal "jobs that have vanished on paper, many of the responsibilities are being fulfilled by outside contractors." Today, more than 22 million people work for companies that are predominantly doing business with the federal government. Arkansas Sen. David Pryor, a Democrat and long-time associate of Bill Clinton, concedes, "The whole philosophy of beating our chest and saying how many fewer employees we have but never in the same breath saying, 'Look at how much larger we are getting in the use of private contractors,' is not an honest portrayal of what's going on with tax dollars."

Finally, even while the federal government has been slightly reducing its payrolls, the total government workforce has expanded to record levels as a result of a hiring boom at the state and local levels. The total government workforce has grown by more than 700,000 since Bill Clinton became president. The public-sector payrolls have expanded by 1.2 million government workers since 1990. Take out the decline in Pentagon employment and there are now nearly 1.5 million more government jobs than there were in the late 1980s.

Government jobs have grown more than employment in manufacturing, mining, finance, insurance, and real estate *combined*. Figure 11 shows that in 1989, when President Reagan left the White House, there were 1.9 million more Americans working in manufacturing--building things--than working for government. Today, there are 1.2 million more workers in government than in manufacturing. The decline in manufacturing employment is due to an impressive gain in productivity in that sector of the U.S. economy. Unfortunately, there has been no evident gain in productivity in the public sector--which partially accounts for the steady increase in government employment.

How the Peace Dividend Was Lost

In his classic history of American government entitled *Crisis and Leviathan*, Robert Higgs documents how governments grow during times of war but almost never recede to their prewar levels once the fighting stops. Higgs finds that taxes and spending are almost always cut after the war ends, but that a "residue of government power remains," thus ratcheting upward the prewar equilibrium level of expenditures and tax receipts. [\[21\]](#)

This ratcheting up of government has occurred in the post-Cold War era. Yet the post-Cold War decade of the 1990s has been unique in American budgetary history in three ways. First, this is the first postwar era in which tax rates have been raised; normally taxes are cut after a war. Second, with the exception of the post-Vietnam era of the 1970s, it is the first time that the budget has not been balanced, and at least a portion of the wartime debt has not been retired. And third, again with the exception of the post-Vietnam period, it is the only time that the total size of the budget has grown, not shrunk, as military expenditures have fallen. Consider the fiscal experience of the five postwar periods in the 20th century, as summarized in Table 3:

- **World War I:** Income tax rates were raised from 7 percent to 70 percent to fund the war effort. After the war, Congress passed the Harding-Coolidge tax rate cuts bringing the top rate back down to 25 percent. Expenditures also fell dramatically after the war. In 1919 federal outlays reached \$18.5 billion. By 1926 federal expenditures had fallen by more than three-fourths, or to \$3.3 billion. The government ran a budget surplus in every year from 1921 to 1930, with more than one-quarter of the debt paid off.
- **World War II:** In the six years after the end of World War II (1945-51), federal expenditures were sliced in half, from \$92.7 billion to \$45.5 billion. Income tax rates were lifted to 90 percent during World War II. Although total taxes were never returned to their prewar level, they were cut by 15 percent by 1950. The federal government ran healthy budget surpluses in four of the five post-World War II years.
- **Korean War:** During the Korean War, federal expenditures rose from \$45.5 billion in 1951 to \$76.1 billion in 1953. The total cost of the war was \$54 billion. By 1955 expenditures had been cut by 12 percent to \$68.0 billion. The budget was balanced by 1956 and \$7 billion of the debt from that military conflict was paid off, despite the fact that the wartime taxes were repealed.
- **Vietnam War:** Military expenditures peaked in 1969 at \$83 billion. They fell to their lowest level, \$77 billion, by 1973. Adjusted for inflation, this was nearly a 25 percent decline in Pentagon spending--or roughly the same percentage that has been cut from the defense budget in the 1990s. Over that same period (1969-73), the Nixon years, domestic programs exploded from \$101 billion to \$169 billion. As a result, there were no budget surpluses or even balanced budgets following the Vietnam War. But the Vietnam War income tax surcharge was repealed in 1970, and personal and corporate income tax receipts fell by about 10 percent.
- **Cold War:** Reagan increased the military budget from \$157 billion in 1981 to \$304 billion in 1989. After the Berlin Wall came down, signaling the end of the Cold War, military expenditures fell to \$266 billion in 1996. From the peak of the defense buildup in 1986 through next year, military outlays will have fallen by 3 percentage points of GDP. Still, about one-third of the savings from the drawdown of defense has been captured by domestic agencies in fattened budgets. The total budget has grown in size every year in the post-Cold War era. Even as military expenditures were falling rapidly, taxes were not cut. Congress and the Bush and Clinton administrations raised taxes in 1990 and in 1993. The tax cut this year will rebate to taxpayers only 25 cents on every dollar of the postwar tax increases of 1990 and 1993. Hence, for the first time in American history, a period of peace and prosperity has led to higher, not lower, taxes.

Table 3
U.S. Budget Policy during Postwar Periods (\$ billions)

	Spending	Tax Receipts	Deficit
World War I			
1919	\$18.5	\$5.1	\$13.4
1922	\$3.3	\$4.0	+\$0.7
World War II			
1945	\$92.7	\$45.2	\$47.6
1948	\$29.8	\$41.6	+\$11.8

Korean War			
1953	\$76.1	\$69.6	\$6.5
1956	\$70.6	\$74.6	+\$3.9
Vietnam War			
1969	\$184	\$187	+\$3
1972	\$231	\$207	\$23
Cold War (Reagan buildup)			
1989	\$1,143	\$991	\$152
1992	\$1,382	\$1,091	\$290

Source: *Budget of the United States Government*, Fiscal Year 1998, Historical Tables, pp. 19-20.

Conclusion

The 1990s have witnessed one of the largest buildups in domestic spending in American history. Even as military expenditures have fallen rapidly, the budget has still grown by more than one-third since 1989. This vast expansion of social programs has occurred with Republicans controlling the White House and Democrats holding Congress. It is now happening with the parties' roles reversed.

So far the Republican Congress has had a negligible impact on the size and scope of the federal government. In fact, in their first three budgets, Republicans have spent slightly more on social programs than Democrats did in the three preceding years. Their 1998 budget resolution calls for more social spending than President Clinton requested.

The budget deal will not balance the budget by 2002 because it presumes, unrealistically, that the 106th and 107th Congresses will make the spending reductions that this Republican Congress has the authority, but lacks the willpower, to enact today. If Republicans in the 105th Congress were seriously committed to a balanced budget, they could achieve it unilaterally next year with relative ease. If total outlays were simply held to the inflation rate, the deficit would be eliminated. The problem is not that Congress cannot cut spending, it is that it will not. [\[22\]](#) As in the Reagan years, Republicans--at least for the moment--seem to have concluded, not that big government is good, but that trying to cut its size is politically futile. [\[23\]](#)

For all of these reasons, the Republican budget revolution, so far, has fallen far short of expectations.

Notes

- [1]. This calculation for nondefense spending includes an estimated \$6 billion of domestic spending that is located in the defense budget.
- [2]. House Committee on the Budget, "The Balanced Budget Plan of 1997," May 14, 1997.
- [3]. Stephen Moore, "Are Supply-Siders All Washed Up?" *Wall Street Journal*, June 5, 1997, editorial page.
- [4]. Arthur P. Hall, "Economic Expansion Leads to Higher Taxes on Median One- and Two-Earner American Families," Tax Foundation, Special Report no. 65, Washington, November 1996.
- [5]. Ted Galen Carpenter, "The Military Budget," in *The Cato Handbook for Congress: 104th Congress* (Washington: Cato Institute, 1995), p. 101.

- [6]. See David Isenberg, "Pentagon Pork," in *Cato Handbook for Congress: 105th Congress* (Washington: Cato Institute, 1997), pp. 120-21; and John Luddy, "More Non-Defense Spending in the Defense Budget," Heritage Foundation, FYI, December 30, 1994.
- [7]. The convention of describing income transfer programs as "entitlements" is inappropriate and should be ended. The term suggests that recipient Paul is "entitled" to taxpayer Peter's money. Yet with respect to most entitlement programs, the recipient did not "earn" the benefit. Moreover, even for a program like Medicare where the benefit is paid out of a dedicated payroll tax, today's seniors get far more out of the program than they paid in. They are in no way "entitled" to expensive and expansive benefits.
- [8]. See, for example Lisa Myers, NBC Nightly News, May 7, 1992. Myers said, "It was often said that Ronald Reagan's big budget cuts declared war on the poor. The best that can be said of George Bush is that he declared a cease-fire."
- [9]. Center on Budget and Policy Priorities, quoted in the Washington Post, January 14, 1995.
- [10]. From 1993 through 1996 welfare caseloads fell by 19 percent, from 14.1 million to 11.4 million. U.S. Department of Health and Human Services, Administration for Children and Families, April 1997.
- [11]. Aid to Families with Dependent Children spending would grow by 4.5 percent per year. Food stamp spending would be up 6 percent per year and the Earned Income Credit up 3 percent per year. Medicare spending would rise by 8.5 percent per year. Senate Republican Policy Committee, "The Balanced Budget Reconciliation Bill," November 7, 1995.
- [12]. Alan Murray, "Budget Plan Becomes a Matter of Discretion," Wall Street Journal, May 12, 1997, p. 1.
- [13]. Ibid.
- [14]. Tim Penny, "Yes, the Deficit Was Cut," Weekly Standard, July 22, 1996, pp. 16-18.
- [15]. Scott A. Hodge, "Clinton Takes Undeserved Credit for Congress's Deficit Reduction," Heritage Foundation, FYI, July 25, 1996.
- [16]. See Doug Bandow and Ian Vásquez, eds., *Perpetuating Poverty* (Washington: Cato Institute, 1993).
- [17]. "Foreign Aid: End It, Don't Mend It," Investor's Business Daily, March 13, 1997.
- [18]. Dean Stansel and Stephen Moore, "Federal Aid to Dependent Corporations: Clinton and Congress Fail to Eliminate Business Subsidies," Cato Institute Briefing Paper no. 28, May 1, 1997.
- [19]. House Appropriations Committee, "Appropriations Panel Fulfills Commitment to Cut Government," April 1996.
- [20]. James Carter, "Government Hiring Binge," Washington Times, December 12, 1996.
- [21]. Robert Higgs, *Crisis and Leviathan* (New York: Oxford University Press, 1987), pp. 112-261.
- [22]. Stephen Moore, "Let's Spend Again," National Review, July 14, 1997, pp. 21-23.
- [23]. For a review of the failure of Republicans to cut government spending in the 1980s, see David Frum, *Dead Right* (New York: Free Press, 1994).