Chris Cox

POLICY COMMITTEE MEMBERS: The Policy Committee will consider adopting this Policy Perspective as a Policy Statement at its Thursday Executive Session, 9 a.m., Room H-122, The Capitol. Please attend to discuss and vote.

House Policy Committee

Policy Perspective

Preserving Our Ability to Fight

Controlling Spending to Fund Our Priorities

November 7, 2001

As September 11th and its aftermath are reminding us, the primary responsibility of the federal government is to protect the nation's security. Supporting our military, intelligence, and homeland defense is and always should be our first priority. Rapid, unsustainable increases in non-defense spending threaten our ability to protect American citizens and to respond to future threats.

Government Is Displacing the Private Sector

Since 1990, the U.S. economy has grown by 70%. But during that same time, the federal government's tax collections from the private sector have increased 96%. As the growth of government has outstripped the growth of the economy that supports it, the federal government has in effect been displacing the private sector.

Today, the federal government consumes $2 trillion annually, almost double what it consumed in 1990. Most of this growth in the federal government occurred during the Clinton administration. Whereas Presidents Reagan and Bush held real non-defense discretionary spending constant in real terms over 12 years, under Bill Clinton, the money spigots were opened. Just during Clinton's first two years in office, federal non-defense spending grew by 10%.

When America ended the 40-year one-party rule of Democrats in Congress in 1994, the new majority succeeded temporarily in slowing the growth of spending. Indeed, in its first year, the new Republican majority not only slowed the growth of domestic discretionary spending, but actually *cut* it. Despite those efforts, however, the Clinton administration notoriously vetoed Congressional money bills that it said did not contain *enough* spending, and blamed Congress for the resultant government shutdown. As a result of the Clinton push for higher spending, non-defense discretionary spending exploded by 16% during the last three years of the Clinton administration.

2471 Rayburn House Office Building (202) 225-6168 FAX (202) 225-0931
policy@mail.house.gov http://policy.house.gov

The new Bush administration has attempted to return to a policy of controlling the growth of spending. President Bush's initial 10-year budget provided for growth in government, but at a modest average annual rate of 3.8%. Even before September 11, however, the Washington spending crowd was resisting this fiscal discipline, and pressuring for more spending. Since the attacks that launched the War on Terrorism, the spending floodgates have opened.

The immediate initiatives taken by Congress following September 11 were vital to the national interest: disaster relief efforts in New York, Virginia, and Pennsylvania; emergency funding for health and law enforcement services; life support for the airline industry in the aftermath of the attacks; and public health measures against the recent anthrax attacks.

But a host of new and increased spending has been proposed that is not remotely germane to the War on Terrorism. A potpourri of proposals—from bigger loan subsidies for shipbuilders, to new school construction, to expanded unemployment benefits, to more highway funding—has been advanced as a faux "response" in this time of crisis. Most recently, the Democratic Senate has used the present crisis to increase non-terrorist related spending by more than $4 billion. Such opportunism is not merely disingenuous; by draining limited resources from our highest priorities, it jeopardizes our security.

Every new spending program represents taxes not spent to support our military and homeland defense. At the same time, every new program places new and greater tax burdens on the working men and women of America, at a time when we should be promoting economic growth. This makes it doubly wasteful. Worst of all, the insidious effects of runaway spending are often permanent: because each new program is automatically built into future budgets, the increased spending inflates the "baseline" budget from which *further* increases are then measured.

Time to Review Spending Priorities

Instead of responding to September 11 with an orgy of undisciplined break-the-bank spending, now is the time for Congress to carefully review recent budget trends, and take action to ensure that our nation is on a fiscally responsible course that meets the new challenges and threats of the 21st century.

Today, the majority of government spending is not even appropriated by Congress. Instead, mandates in existing law have put over two-thirds of our budget on autopilot. This so-called "mandatory" spending represents an abdication of the federal government's responsibility to allocate resources based on current information and new challenges.

During the administration of President John F. Kennedy, defense spending accounted for 50% of all federal spending. "Mandatory" spending consumed less than one third of the total. By 2001, however, defense spending has shrunk to just 16% of federal spending. So-called "mandatory" spending, on the other hand, now consumes *two-thirds* of total spending.

It is essential that Congress re-assert control over the federal budget, because mandatory spending is projected to consume an even larger share of the total in coming years. Failure to act will contribute to the long-standing shift in federal priorities *away* from national defense and homeland security.

Likewise, as Congress begins to develop the framework of next year's budget, one-time expenditures related to the current crisis should not be used as an excuse to permanently increase the size and the scope of the Federal government.

Lower Tax Rates, Not Higher Spending, Needed

Today, our economy is suffering from a significant slowdown. Businesses are reducing their capital investment and laying off workers. America's economic policies must provide incentives to rehire workers and expand job opportunities, and get the country's economy moving again.

By moderating income tax rates as well as reducing the so-called "capital gains" tax on savings and investment, we can offset some of the higher costs on workers and firms that have resulted from September 11. High tax rates on work and investment discourage the very activities that make the economy grow. What's more, they are counterproductive: by slowing the growth of the economy, they reduce the tax base, decreasing government revenue.

Eliminating the alternative minimum tax and reforming depreciation rules will likewise increase incentives to work and invest. These responsible tax law changes will both rejuvenate the economy immediately, and encourage long-term growth. By expanding the economy, we will put our country—and our government—in a better position to meet the challenges of both today and tomorrow.

The Path to a Stronger United States of America

In order to preserve our government's ability to respond to future challenges and threats, we must control government spending and encourage economic growth. Congress should take action today, while there is still time.

Above all, Congress should control the growth of spending. Instead of creating costly new programs and subsidies that will increase taxes on the American people and risk a return to deficits, Congress should strictly enforce budgetary constraints and ensure that "mandatory" spending does not overwhelm our federal budget. All so-called "mandatory" programs should undergo regular review; many should be given sunsets. And Congress should, as the President has requested, moderate tax rates to encourage economic growth and protect government revenues in the wake of the terrorist attacks.

We cannot foresee the future. We do not know today the threats and challenges that will confront us tomorrow. But with prudent action today, we can ensure that our national government will be strong enough to win the War on Terrorism, and flexible enough to respond to any new challenge.