NCPA

National Center for Policy Analysis

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Budget Summit Issue:

If the Budget Summit Was a Success, Why is the Five-Year Deficit Heading Toward $1 Trillion?

The recently released 1992 federal budget documents the failure of the federal government to live within its means.[1] Despite claims that last year's budget agreement would reduce the federal deficit by almost $500 billion, the Bush Administration now says the federal deficit will balloon by more than $800 billion over the next five years relative to the estimate it prepared just one year ago.

"The Bush Administration's forecast of deficits for the next five years is now $865.2 billion."

- The 1991 Bush budget projected a five-year deficit of $62.3 billion for fiscal years 1991 through 1995.
- By contrast, the new Bush budget projects an $865.2 billion deficit for the same period. (See Figure 1.)

The Budget Summit Agreement. White House and congressional negotiators met from June through October of 1990 to fashion a package that would balance the federal budget by 1995. When those negotiations concluded, the principals made broad claims about deficit reduction. The Bush Administration's new budget — coming only three months after passage of the budget bill — shows how successful the new system is likely to be in holding down deficit spending.

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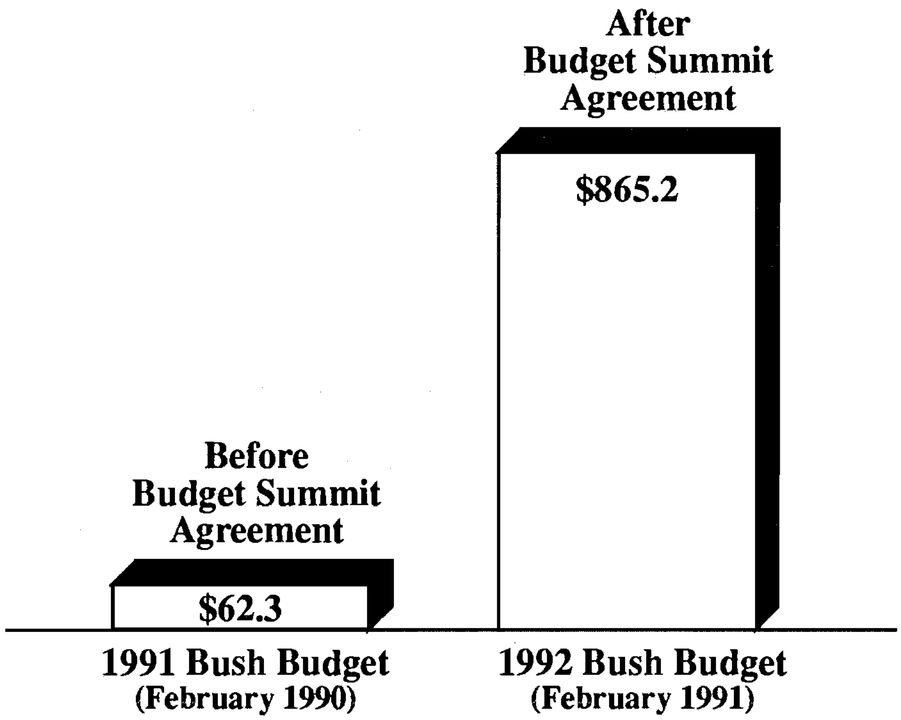
"The forecasted five-year deficit grew by more than $800 billion in just 12 months."

Figure I

Projected Five-Year Deficit (1991-1995)

($ billions)



- In just three months, the projected five-year cumulative deficit has increased by $331 billion.

- This projected increase has occurred with no congressional review or vote — none is necessary under the new budget rules.

- As a result, the administration has already conceded that over 67 percent of the expected "deficit reduction" is unobtainable.

- While policymakers were claiming to have reduced the deficit by $490 billion, they were approving huge spending increases over those allowed by previous Gramm-Rudman law.

This Year's Deficit. Only one year ago, the Bush Administration forecast that the federal government would end its 1990 fiscal year (in October) with a deficit of $123.7 billion. (See Figure II.) In fact, 1990 spending was allowed to grow at 9.4 percent while tax revenues rose by only 4.1

percent — producing an additional $96.7 billion in deficits. For the coming year, the picture is even worse.

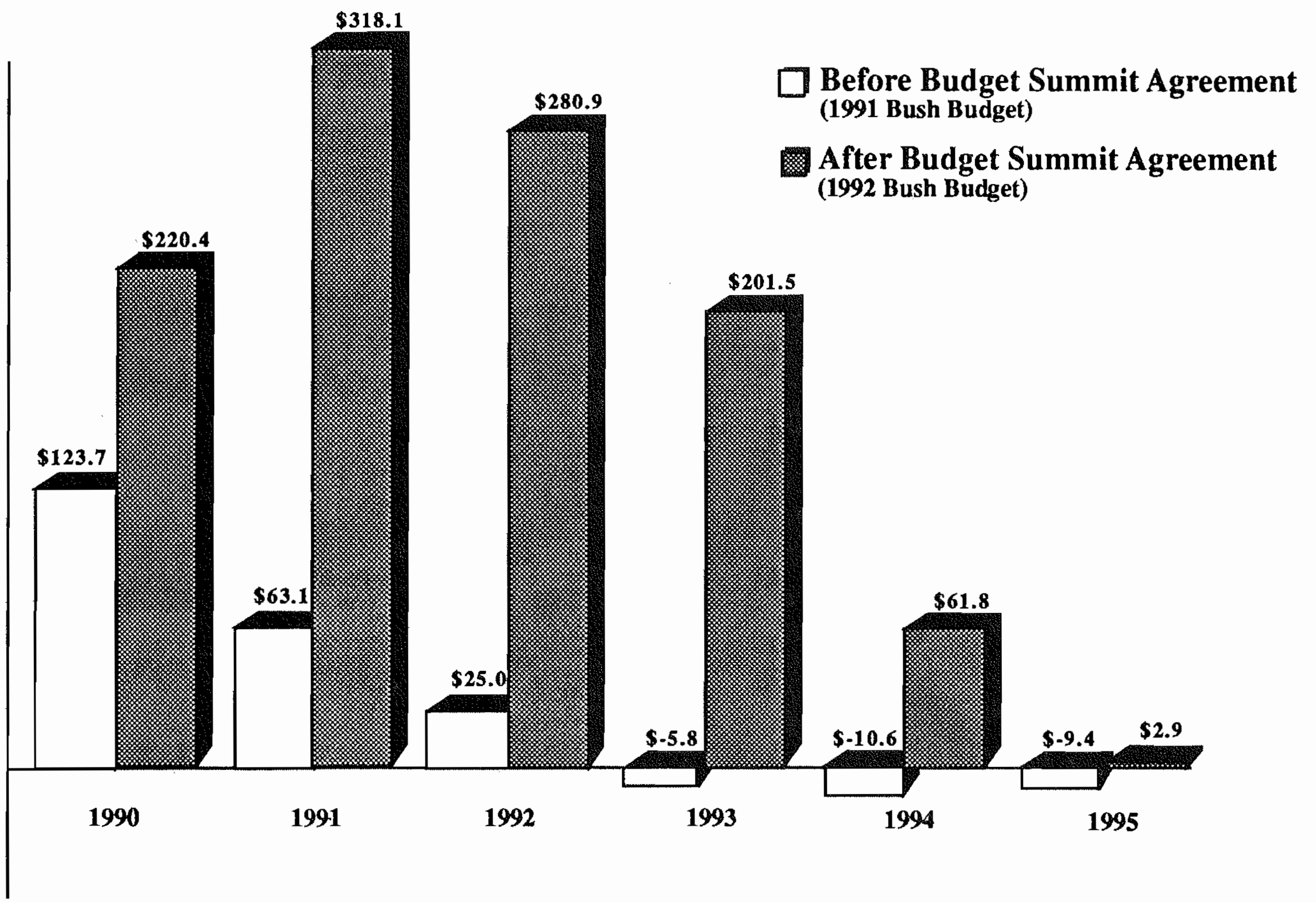
"In 1991, federal spending will grow 12.6 percent, while tax revenues grow by only 5.8 percent."

- Only twelve months ago, the Bush Administration forecast that the 1991 deficit would be only $63.1 billion.
- The government now estimates that the 1991 spending will grow at 12.6 percent over 1990, while tax revenues will grow by only 5.8 percent.
- As a result, the federal government will run a $318.1 billion deficit in fiscal year 1991, including the costs of Desert Storm and the deposit insurance bailout.

Figure II

Annual Budget Deficits

($ billions)



"Compared to last year, the new Bush budget predicts higher spending, lower revenues and bigger deficits."

Five More Years of Deficits. The Bush Administration's 1992 budget presents a much different picture than the 1991 budget. Spending is much higher, expected revenues much lower and the deficit much larger.[2] As Table I shows:

- For the next five years, spending will be $505.5 billion dollars higher under the current budget than under last year's budget.
- Receipts will be $297.4 billion dollars lower — despite $147 billion in tax increases enacted by the budget summit bill.
- As a result, the five-year federal deficit will be $802.9 billion higher under the latest budget than under last year's budget.

Table I

What Caused the Deficit Forecast to Change?

($ billions; fiscal years 1991-1995)

"63 percent of the increased deficit is due to higher spending."

Source of Change	Change in the Administration's Forecast
Increase in Predicted Spending	**$505.5**
Decrease in Predicted Revenue	**$297.4**
Increase in Predicted Deficits	**$802.9**

Reasons for the Change in the Forecast

How did the projected five-year deficit grow by more than $800 billion in just 12 months? Table II decomposes this increase in the projected deficit into three major sources.

The On-Budget Deficit. On-budget spending and revenue changes include virtually all programs except Social Security retirement and disability benefits.[3] On-budget items account for $484.8 billion of the deficit increase — $292.7 billion are due to more spending and $192.1 billion to lower expected revenues.

The Off-Budget Deficit. Adjustments to off-budget items — primarily Social Security — account for another $150.8 billion increase in the deficit. The $45.5 billion in higher spending is due primarily to higher inflation and, therefore, higher cost-of-living-adjustments. The $105.3 billion in lower receipts stems mainly from a major revision in expected payroll tax revenues.

"Public confusion about the deficit is encouraged by on-budget/off-budget accounting techniques."

"Emergency" Measures. The 1992 budget includes an additional $13.6 billion in higher defense spending for Operation Desert Storm — an estimate which presumes that other members of the allied coalition will significantly contribute to U.S. costs in the war effort. The additional $56 billion the administration requested 11 days after the release of the budget, however, will raise the costs of Desert Storm even higher.[4] The other emergency, the bailout of the financial system, adds $155.3 billion to the deficit. Even though the cost of the savings and loan rescue was cited as a major reason for the budget summit, it accounts for a relatively small portion of the deficit increase.

Table II

How the Projected Deficit Grew

($ billions; fiscal years 1991-1995)

"Less than 20 percent of the five-year deficit is due to the gulf war and the S&L bailout."

1991 Budget: Estimate of Deficit		**$62.3**
On-Budget Deficit Increase:		
On-Budget Spending Increases	**$292.7**	
Lower On-Budget Receipts	**<u>192.1</u>**	
		484.8
Off-Budget Deficit Increase:		
Off-Budget Spending Increases	**45.5**	
Lower Off-Budget Receipts	**<u>105.3</u>**	
		150.8
Emergency Measures:		
Desert Storm	**13.6**	
Financial System Bailout	**<u>153.7</u>**	
		<u>167.3</u>
1992 Budget: Estimate of Deficit		**$865.2**

A More Realistic Prediction of Future Deficits

"The five-year deficit will be at least $180 billion higher than the Bush Administration's forecast."

We have used a general equilibrium model of the U.S. economy to assess the impact of the new taxes and spending measures in the budget summit agreement. This method is dynamic, taking into account the effect of government policy changes on businesses, workers and consumers. The estimates presented here compare economic and budget effects of the proposed package against the baseline of the administration's Mid-Session Review economic forecast update.[5] Relative to the projections in the administration's new budget, we estimate that:

- Two additional quarters of recession will add $30 billion to the cumulative federal deficit.
- The negative long-run economic effects of new taxes will add $90 billion.
- Other adjustments, such as higher agriculture subsidies, will add $20 billion.
- Added foreign aid and costs of Desert Storm will add perhaps $40 billion.
- The total of these adjustments will increase the five-year deficit by an additional $180 billion.

This NCPA estimate is conservative. A more pessimistic estimate, provided by the Office of Management and Budget, places additional deficit spending at $240 billion. (See Figure III.)

"The budget summit bill allows a $1 trillion increase in the national debt — which is almost certain to occur."

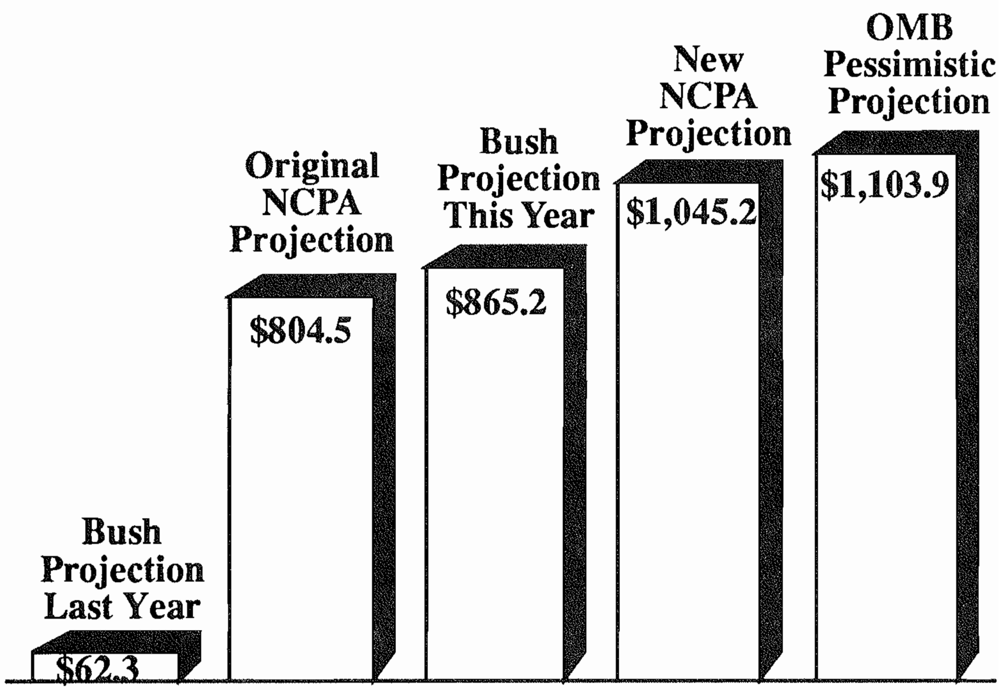
Although these projections may come as a surprise to voters and taxpayers, they are unlikely to surprise budget summiteers. While claiming they would hold the five-year deficit to $546.5 billion, they quietly inserted a provision in the budget summit bill allowing the federal debt to grow by $1 trillion over the same period. It now appears almost certain that the federal government will in fact borrow an additional $1 trillion over the next five years.

"*Realistic predictions place the five-year deficit at $1 trillion or more.*"

Figure III

How High Will the 1991-1995 Deficit Really Go?

($ billions)



The Worst Is Yet to Come

Although the budget summit bill was supposed to deal with the "crisis" of large deficits, Figures II and IV illustrate the curious timing of the government's response. The first two years of the agreement promise more spending, more taxes and larger deficits. Spending and deficits are only seriously restrained after the 1992 elections. In other words, the agreement allows politicians to *increase* spending in the short run in return for a promise of later restraint. Will that promise be kept?

Budget Summit Promises. Table III shows how the Bush Administration expects federal spending to change over the next five years relative to its expectations one year ago. The table includes the effects of the budget summit agreement but excludes spending for Operation Desert Storm and the S&L bailout. As the table shows:

"The budget summit agreement permits higher spending and larger deficits — in return for promises of restraint later on."

- For the first three years of the agreement, serious spending cuts occur in only two areas — defense spending and "other mandatory spending," primarily farm subsidies.[6]

- Neither reduction is likely to occur, however — the war in the gulf has effectively cancelled the defense cuts and the probable failure of the GATT talks will lead to a restoration of farm subsidies. (See below.)

Only in the final two years of the agreement are federal politicians required to make difficult choices. Relative to what was projected one year ago, the budget summiteers promised to do the following:

- After increasing spending on traditional programs at a rate of \$78 billion per year in the first three years, the negotiators promised to reduce the spending increases to \$52 billion a year in 1994 and 1995.

- Since entitlement spending will actually increase in those two years, from \$45 billion to \$63 billion per year, major cuts will have to be made in defense spending and domestic discretionary spending.

"After increasing domestic spending by \$49 billion the first three years, Congress has promised to cut those same programs by \$88 billion in years four and five."

- After *increasing* domestic discretionary spending by \$49 billion in the first three years, Congress promised to cut \$88 billion *in the same program areas* in 1994 and 1995 — a change hardly consistent with special interest pressures and pork barrel politics.

- After effectively postponing \$38 billion in defense cuts (because of the gulf war) in the first three years, the government promised to make those cuts *plus* \$88.3 billion more in 1994 and 1995 — a change hardly consistent with maintaining a "new world order."

These spending cuts, moreover, will be left to future politicians — the next administration and the next Congress.

"Painful spending cuts will be left for future politicians to make."

Table III

Timing of Changes in Federal Spending and Revenues[1]

Category	1991-93 Change ($ billions)	1994-95 Change ($ billions)
Entitlement Spending	$134.5	$126.9
Other Mandatory Spending	-23.8	-12.0
Net Interest	114.4	128.7
Undistributed Offsetting Revenues	0.4	8.1
Domestic Discretionary Spending	49.0	-88.3
Defense Discretionary Spending	-38.2	-58.9
International Discretionary Spending	-3.3	-1.6
Total Spending[2]	233.0	102.9
Total Revenues	-235.1	-62.3
Deficit	$468.1	$165.2

[1]Relative to the Bush 1991 Budget. Excludes spending for Operation Desert Storm and the S&L Bailout.

[2]The two columns do not add up to the actual $338.2 billion in increased spending because of rounding off.

The Record of Past Summit Agreements. The pattern of the current budget summit agreement is similar to that of previous ones. Yet according to a Tax Foundation study, not only did the five previous budget summit agreements (covering six fiscal years in the 1980s) fail to achieve their deficit reduction goals, in each instance the level of the federal deficit actually increased:[7]

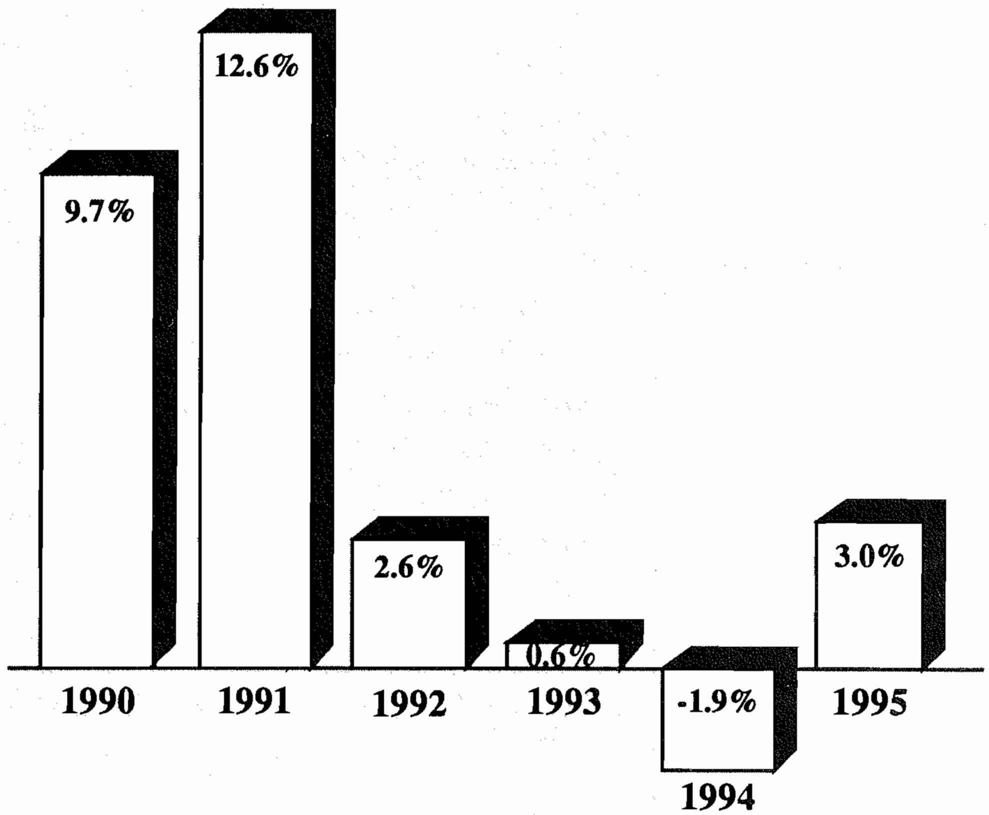
"The record of five budget summits is consistent: taxes are raised and promises to cut spending are broken."

- In all six budget summit years in the 1980s, new taxes were agreed to in return for an agreement on a lower federal deficit.
- Despite the agreement and the higher taxes, in five of the six years the deficit rose.
- In all six cases, the actual deficit produced was higher than the deficit that had been agreed to.

"Serious spending restraint does not take place until after the 1992 elections."

Figure IV

Annual Change in Federal Spending



For example, President Reagan agreed to $28 billion in new revenues for fiscal years 1988 and 1989 in return for a $76 billion deficit reduction. Instead, the 1988 deficit was $5.4 billion higher than agreed to and the 1989 deficit was $11 billion higher. By contrast, in 1984 and 1987 there was no summit agreement or tax increase. In those years the deficit fell by $22.5 billion and $71.5 billion, respectively.

Where Is the New Spending Going?

Of the $865.2 billion increase in the five-year deficit, $505.5 billion represents an increase in spending. Of this amount, $167.3 billion will be spent on Operation Desert Storm and the S&L bailout. That leaves $338.2 billion in increased spending projected in the Bush Administration's new budget. Where is all of that money going?

"About 78 percent of the predicted increase in spending will go to entitlement programs — but only 18 percent will go to Social Security and Medicare."

Who Benefits from New Spending? Table A-II in the Appendix shows where these additional dollars are allocated. About 78 percent of the increase is on entitlement programs. Interestingly, only 18 percent is for Social Security and Medicare. The largest single increase is for Medicaid. The second largest is for other "income security" programs, which include pension benefits for retired federal employees, AFDC payments to welfare mothers and supplementary payments to low-income Social Security beneficiaries. There are also large increases for the Unemployment Compensation system and the federal government's food and nutrition programs.

Spending the Peace Dividend. As the Cold War drew to a close, there was considerable argument over what to do with the "peace dividend." Most conservatives wanted to use the money to lower taxes. Most liberals wanted to initiate new spending programs. Hardly anyone proposed spending the dividend on existing entitlement programs — almost all of which are in desperate need of reform. Yet that is exactly how it is being spent. As Table A-III shows:

"The 'peace dividend' is being spent almost dollar-for-dollar on existing entitlement programs."

- Relative to their share of spending in the 1990 budget, entitlement programs will grow by $317.4 billion over the next five years.

- Relative to its share of spending in the 1990 budget, defense spending will decrease by $295 billion over the next five years.

- Thus, what the budget summit agreement really consisted of was a virtual dollar-for-dollar transfer of the peace dividend to existing entitlement beneficiaries.

Of this $300 billion transfer, about one-third will go to the elderly (through Social Security and Medicare), one-third to Medicaid and the remaining one-third to other programs, including pension benefits for federal retirees. Those who worry about the burden of interest on the federal debt may be surprised to learn that as a share of total spending, interest payments will actually decline over the next five years.

How the Federal Debt Can Increase By $1 Trillion Without Any New Act of Congress

"The five-year deficit can easily reach $1 trillion without any sequester under the new budget rules."

Under the budget summit agreement, the five-year cumulative deficit was supposed to be held to $535.2 billion and the federal government was supposed to run a surplus by 1995. Negotiators bragged about new "enforcement mechanisms," including a sequester procedure even better than the one under the Gramm-Rudman law. Yet the cumulative deficit has already jumped $331.2 billion since the law was passed, and we predict that it will reach $1 trillion without a sequester. How is this possible?

How Sequester Works. Under the bill, any new legislation is supposed to be "deficit neutral." That is, any deficit-increasing proposal must be coupled with an offsetting, deficit-reducing proposal. This pay-as-you-go constraint pertains to both mandatory and discretionary categories and prevents the expansion of mandatory programs by adding new provisions. The impact of new legislation is calculated by adding the "pluses and minuses" to assure that no net costs are added. A specific legislative breach of this requirement would trigger a sequester.

Getting Around the Sequester. Under the bill, the president is allowed to enforce the spending limits after having made appropriate "economic and technical adjustments."[8] Only new legislation can cause a sequester, however. If the growth in existing programs increases the deficit, this increase is permitted under the revision process.

"Pay-as-you-go rules do not apply to deficit increases caused by higher-than-expected inflation or lower-than-expected revenues."

For example, if entitlement programs exceed the spending limits because the rate of inflation is higher than the summiteers assumed (causing higher cost-of-living adjustments), the increase in the deficit counts as a "technical adjustment." Tax revenues will be lower than originally expected because the summiteers ignored the fact that we were entering a recession.[9] Revenues will also be lower because the new taxes in the bill will have a depressing effect on the economy — roughly equal to the effects of the recession.[10] The resulting increase in the deficit also will count as a "technical correction."

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Other Exceptions to the Ceilings. The requirement of sequester can also be bypassed if the president and Congress agree that the new legislation is based on an "emergency." For example, S&L bailout costs are specifically prohibited from triggering a sequester under the pay-as-you-go provisions. A bailout of the nation's banking system will undoubtedly also be treated as an "emergency."[11]

The costs of Operations Desert Shield and Desert Storm were specifically exempted from the spending ceilings. Because the war's costs are exempt, some Democrats are hoping to bypass the pay-as-you-go rules and enact new benefits for active-duty troops, veterans and their families.[12] Similarly, a $14.9 billion cut in farm supports is subject to an exception. The bill requires that agricultural subsidies be restored if the U.S. fails to ratify the current General Agreement on Tariffs and Trade (GATT) trade negotiations.[13]

"Specifically excluded from pay-as-you-go rules: Desert Storm, the S&L bailout and any other 'emergency'."

The budget bill supposedly requires a 60 vote super-majority to make any change in Social Security taxes or benefits. But some congressional Democrats believe they have found a loophole that will allow such changes with only a simple majority vote in Congress.[14]

A $1.25 Trillion Forecasting Error

As noted previously, one year ago the Bush Administration forecast a five-year deficit of $62.3 billion. Using the administration's method of calculation, the five-year deficit projection would now be $1.3 trillion but for the budget summit agreement.[15] Thus, in just 12 months we have had a forecast revision equal to about $1.25 trillion.

"In just 12 months, the administration has admitted to a $1.25 trillion forecasting error."

How could the federal forecasters have made such an incredible misjudgment about the future in such a short period of time? One might suppose that the revisions are primarily due to the costs of the S&L bailout and Desert Storm. Yet these two items account for only 13 percent of the error. The other 87 percent is due to the failure to forecast the economy correctly and the failure to forecast how the private sector responds to existing public policies. (See Table IV.)

"When federal forecasters make mistakes, taxpayers pay for the errors."

Table IV

Causes of Budget Projection Errors[1]
(1991-1995)

Errors in Predicting Revenues:		
Economic Forecast Errors	**24.6%**	
Policy Forecast Errors	**15.8%**	
		40.4%
Errors in Predicting Spending:		
Economic Forecast Errors	**20.2%**	
Policy Forecast Errors	**39.4%**	
		59.6%
Errors in Predicting the Cumulative Deficit		**100.0%**

[1]Excludes the costs of Operation Desert Storm and the S&L Bailout.

So who pays the costs of the federal government's inability to forecast its income and expenses correctly? Taxpayers do. When federal government's forecasters make mistakes, the only penalty is that those errors are simply added to the agreed-upon deficit totals, leading to more debt and more future taxpayer liability.

Conclusion

"Under the new budget rules, federal forecasting errors simply create larger deficits."

The magnitude of the federal government's forecasting errors and their effect on the deficit have grave implications for budget policy. The budget agreement was supposed to reallocate spending priorities and to require pay-as-you-go rules to reduce the deficit. The success of these new mechanisms begins and ends with a technical assessment of the budgetary impact of any change. Once an incorrect forecast is made, however, the errors are forgiven forever — only adding to, never subtracting, from the deficit.

Gary Robbins
Aldona Robbins

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NOTE: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any bill before Congress.

Appendix

Table A-I

Spending, Revenue and Deficits: A Comparison of the 1991 and 1992 Budgets

($ billions)

	Total Spending		Total Revenue		Deficit	
Fiscal Year	1992 Bush Budget	1991 Bush Budget	1992 Bush Budget	1991 Bush Budget	1992 Bush Budget	1991 Bush Budget
1986	$990.3	$990.3	$769.1	$769.1	$221.2	$221.2
1987	1,003.8	1,003.8	854.1	854.1	149.7	149.7
1988	1,064.1	1,064.0	909.0	909.0	155.1	155.0
1989	1,144.1	1,142.6	990.7	990.7	153.4	151.9
1990	1,251.7	1,197.2	1,031.3	1,073.5	220.4	123.7
1991	1,409.5	1,233.3	1,091.4	1,170.2	318.1	63.1
1992	1,445.9	1,271.4	1,165.0	1,246.4	280.9	25.0
1993	1,454.2	1,321.8	1,252.7	1,327.6	201.5	(5.8)
1994	1,427.1	1,398.0	1,365.3	1,408.6	61.8	(10.6)
1995	1,470.2	1,476.9	1,467.3	1,486.3	2.9	(9.4)

Source: *Budget of the United States Government, Fiscal Year 1991* and *Budget of the United States Government, Fiscal Year 1992.*

Table A-II

Change in Federal Spending and Revenues Between the Bush 1991 and 1992 Budgets

(Fiscal Years 1991-1995. Does not include the costs of Operation Desert Storm or the S&L Bailout.)

Category	Change in $ billions	Percent of Deficit Change
ENTITLEMENT PROGRAMS	$261.4	41.3%
ELDERLY PROGRAMS:	59.3	9.4%
Social Security	38.1	6.0%
Medicare	21.2	3.3%
GENERAL PROGRAMS:	202.1	31.9%
Education Employment Social Services	0.1	0.0%
Health Care	70.9	11.2%
Medicaid	72.9	11.5%
Other Health	-2.0	-0.3%
Income Security	120.8	19.1%
Unemployment Compensation	32.4	5.1%
Retirement & Disability[1]	-1.2	-0.2%
Food and Nutrition	28.9	4.6%
Other Income Security[2]	60.7	9.6%
Veterans Benefits	10.3	1.6%
OTHER MANDATORY PROGRAMS	-35.8	-5.7%
Agriculture Stabilization	-2.5	-0.4%
Commerce & Housing Credit	-19.7	-3.1%
Misc Other Mandatory	-13.6	-2.1%
TOTAL MANDATORY SPENDING	225.6	35.6%
TOTAL NET INTEREST	243.1	38.4%
TOTAL UNDISTRIBUTED OFFSETTING REVENUES[3]	8.5	1.3%
DOMESTIC DISCRETIONARY	-39.3	-6.2%
DEFENSE DISCRETIONARY	-97.1	-15.3%
INTERNATIONAL DISCRETIONARY	-4.9	-0.8%
TOTAL OUTLAYS	335.9	53.0%
TOTAL RECEIPTS	-297.4	-47.0%
DEFICIT	633.3	100.0%

[1] Includes general retirement and disability programs, excluding Social Security, such as railroad retirement and black lung.

[2] Direct payments for federal retirement programs, Supplementary Security Income, and family support payments.

[3] Mainly measures the future federal government liability for employee retirement benefits.

Source: *Budget of the United States Government, Fiscal Year 1991* and *Fiscal Year 1992*. Figures are 1992 Administration Proposal less 1991 Administration Proposal.

Table A-III

Change in Priorities Spending Relative to the Shares in 1990

(Fiscal Years 1991-1995. Does not include the costs of Operation Desert Storm or the S&L Bailout.)

Category	Change in $ billions	Average Percent Change
ENTITLEMENT SPENDING PROGRAMS	$317.4	10.0%
ELDERLY PROGRAMS:	119.9	5.9%
Social Security	60.9	4.2%
Medicare	58.9	10.4%
GENERAL PROGRAMS:	197.5	17.3%
Education Employment Social Services	-4.2	-6.5%
Health Care	114.9	45.4%
Medicaid	105.0	43.3%
Other Health	9.9	93.2%
Income Security	87.1	11.9%
Unemployment Compensation	21.0	20.8%
Retirement & Disability[1]	-2.2	-8.0%
Food and Nutrition	16.7	13.3%
Other Income Security[2]	51.6	10.8%
Veterans Benefits	-0.3	-0.4%
OTHER MANDATORY PROGRAMS	-9.0	-15.2%
Agriculture Stabilization	-0.5	-1.0%
Commerce & Housing Credit	-11.0	-45.4%
Misc Other Mandatory	2.5	-12.7%
TOTAL MANDATORY SPENDING	308.4	9.6%
TOTAL NET INTEREST	-41.3	-3.8%
TOTAL UNDISTRIBUTED OFFSETTING REVENUES[3]	13.6	-6.3%
DOMESTIC DISCRETIONARY	20.2	1.9%
DEFENSE DISCRETIONARY	-295.0	-16.8%
INTERNATIONAL DISCRETIONARY	-5.9	-5.5%

[1] Includes general retirement and disability programs, excluding Social Security, such as railroad retirement and black lung.

[2] Direct payments for federal retirement programs, Supplementary Security Income, and family support payments.

[3] Mainly measures the future federal government liability for employee retirement benefits.

Source: *Budget of the United States Government, Fiscal Year 1992*. Figures are the 1992 Administration Proposal less the same total outlays allocated at actual 1990 shares.

Footnotes

[1]Executive Office of the President, *Budget of the United States Government Fiscal Year 1992*, Washington, DC: Office of Management and Budget, February 4, 1991.

[2]Appendix Table A-I compares spending, receipts and deficit in last year's budget document with those in the one released on February 4, 1991.

[3]Old-Age Survivors Insurance and Disability Insurance are now off-budget. Medicare remains on-budget. This distinction is a carryover from Gramm-Rudman-Hollings.

[4]"$56 Billion Asked for Gulf War," *Washington Times*, February 15, 1991, p. A3. The administration is assuming that the U.S. will recoup 80 to 90 percent of this amount from its allies.

[5]See Aldona Robbins and Gary Robbins, "Taxes, Deficits and the Current Recession," NCPA Policy Report No. 156, January 1991.

[6]Mandatory spending encompasses entitlements and a wide variety of other benefits, services and subsidies, ranging from social services to agricultural supports. The element common to all mandatory spending is that it tends to be automatic. It is not normally controlled through the annual congressional appropriations process in the way that other spending, termed "discretionary," is.

[7]Paul G. Merski, "A Decade of Budget Summitry," Washington, DC: *Tax Foundation Issue Brief*, June 1990.

[8]*Fiscal Year 1992 Budget*, Part V.

[9]Recession is technically defined as two successive quarters of actual zero or negative real economic growth measured by the Commerce Department or a forecast by OMB or CBO of two quarters of less than 1 percent growth. Under these circumstances, the Speaker of the House is required to offer a resolution to "shut down" the effects of the bill. The latest CBO and OMB forecasts both contained two quarters of resession and Congress took up the resolution. It voted to keep the enforcement mechanisms intact, not wanting to undo the painfully wrought budget bill only three months after its passage. If the recession continues, however, this issue will likely be revisited.

[10]Robbins and Robbins, "Taxes, Deficits and the Current Recession."

[11]John M. Berry, "FDIC Chief Warns of Low Fund Reserve," *Washington Post*, December 17, 1990, p. A1.

[12]Jackie Calmes, "Moynihan Sees Way to Advance Payroll Tax Cut," *Wall Street Journal*, February 20, 1991, p. A-2.

[13]Omnibus Budget Reconciliation Act of 1990, Sec. 1302 (a).

[14]Jackie Calmes, "Moynihan Sees Way to Advance Payroll Tax Cut," *Wall Street Journal*, February 20, 1991, p. A-2.

[15]The cumulative deficit of $1,314.7 billion is reduced by $345.3 billion of OBRA "spending cuts" (October 1990 estimate) and $166.5 billion in revenue increases (1992 Budget estimate), leaving a resulting deficit of $865.2 billion. Spending cuts by major category are: $98.9 billion in mandatory programs; $64 billion in net interest; and $182.4 billion in defense.

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THE NATIONAL CENTER FOR POLICY ANALYSIS

The National Center for Policy Analysis is a nonprofit, nonpartisan research institute, funded exclusively by private contributions. The NCPA originated the concept of the Medical IRA (which has bipartisan support in Congress) and merit pay for school districts (adopted in South Carolina and Texas). Many credit NCPA studies of the Medicare surtax as the main factor leading to the the 1989 repeal of the Medicare Catastrophic Coverage Act.

NCPA forecasts show that repeal of the Social Security earnings test would cause no loss of federal revenue, that a capital gains tax cut would increase federal revenue and that the federal government gets virtually all the money back from the current child care tax credit. These forecasts are an alternative to the forecasts of the Congressional Budget Office and the Joint Committee on Taxation and are frequently used by Republicans and Democrats in Congress. The NCPA also has produced a first-of-its-kind, pro-free-enterprise health care task force report, representing the views of 40 representatives of think tanks and research institutes.

The NCPA is the source of numerous discoveries that have been reported in the national news. According to NCPA reports:

- Blacks and other minorities are severely disadvantaged under Social Security, Medicare and other age-based entitlement programs;

- Special taxes on the elderly have destroyed the value of tax-deferred savings (IRAs, employee pensions, etc.) for a large portion of young workers; and

- Man-made food additives, pesticides and airborne pollutants are much less of a health risk than carcinogens that exist naturally in our environment.

What Others Say About the NCPA

"... influencing the national debate with studies, reports and seminars."

TIME

"... steadily thrusting such ideas as 'privatization' of social services into the intellectual marketplace."

CHRISTIAN SCIENCE MONITOR

"Increasingly influential."

EVANS AND NOVAK