

ISSUE BRIEF

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A Decade of Budget Summitry

by Paul G. Merski

The FY1991 budget summit will be the fifth time in nine years the White House and Congress have conducted special negotiations to try to reduce the federal deficit. Unfortunately, despite these negotiations, the budget deficit has averaged well over \$160 billion each year during this same period (see table 1). In the first six months of the current fiscal year, the deficit already exceeded \$150 billion even though the full-year target is \$100 billion. In light of these results, summits allegedly convened to lower deficits may have done more harm than good.

Talk Is Expensive

For many years now the White House and Congress have generally been locked in a budgetary stalemate which has impeded any significant deficit reductions. The high-level budget talks held in 1982, 1984, 1985, 1987 and 1989 all fell far short of their stated goals (see figure 1 and table 2). Consequently,

each year's deficit has been fueling a national debt that has reached \$3 trillion. This debt represents more than \$12,500 for every man, woman, and child

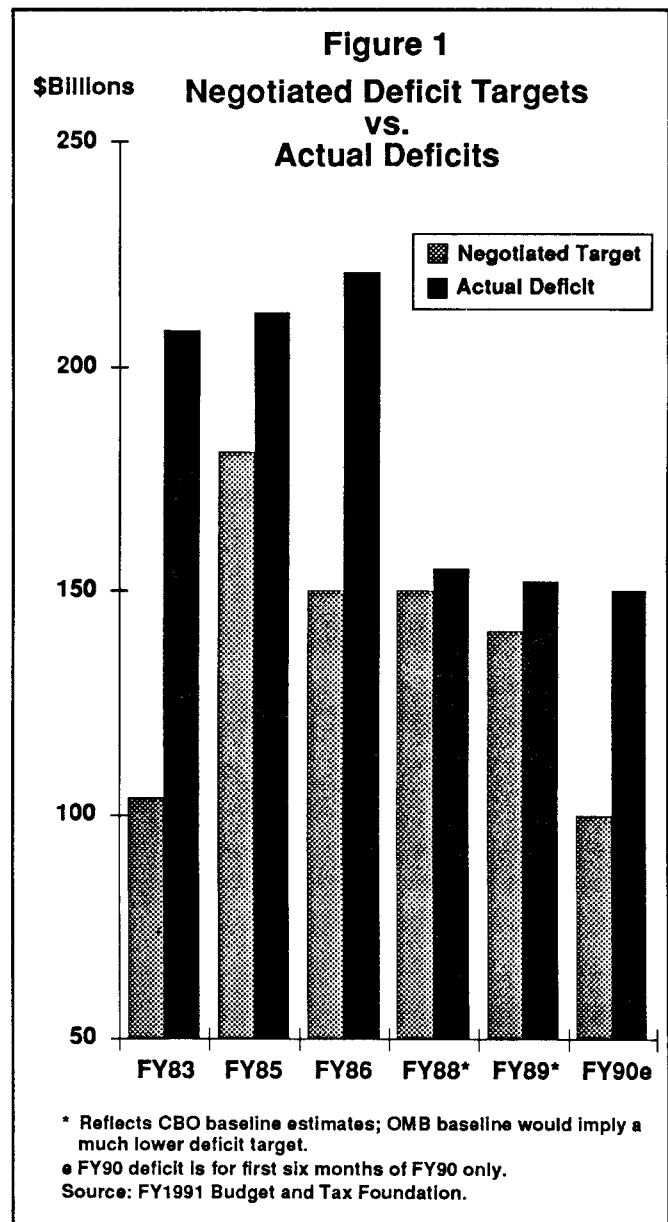


Table 1
Budget Summary
Fiscal Years 1980-1990
(\$Billions)

Fiscal Year	Receipts	Outlays	Deficit
1980	517.1	590.9	- 73.8
1981	599.3	678.2	- 78.9
1982	617.8	745.7	- 127.9
1983	600.6	808.3	- 207.8
1984	666.5	851.7	- 185.3
1985	734.1	946.3	- 212.3
1986	769.1	990.3	- 221.2
1987	854.1	1,003.8	- 149.7
1988	909.0	1,064.0	- 155.1
1989	990.7	1,142.6	- 152.0
1990 ^a	458.3	609.2	- 150.9

^a First six months of fiscal year only.

Source: FY1991 Budget and Tax Foundation.

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Table 2
Negotiated Deficit Targets
vs.
Actual Deficits

Negotiation Year	Fiscal Year	Negotiated Target (\$bil)	Actual Deficit (\$bil)
1982	FY83	-104	-208
1984	FY85	-181	-212
1985	FY86	-150	-221
1987**	FY88	-150*	-155
	FY89	-141*	-152
1989	FY90	-100	-150 ^e

* Reflects CBO baseline estimates; OMB baseline would imply a much lower deficit target.

** Two-year agreement.

^e First six months of FY90 only.

Source: Tax Foundation.

in the U.S., triple the amount of just ten years ago. Little has been done to control the persistently escalating costs of entitlement programs. Mandated payments for individuals together with interest charges now comprise well over 60 percent of total outlays and are the fastest growing segments of federal spending.

The Irony of Budget Summitry

Ironically, the fiscal years that were not preceded by budget summits actually resulted in the most real deficit reduction (see figure 2). In FY1984, the deficit dropped \$23 billion when spending was held to 5.4 percent — half the rate of revenue growth for that same year. In FY1987 spending grew only 1.4 percent and the budget deficit fell a record \$71.5 billion. Conversely, the fallout in fiscal years with negotiated deficit reductions was higher taxes and higher deficits.

The Budget Summit Lesson of 1982

High-level budget talks over the past decade have usually been conducted in times of fiscal crisis. April of 1982 was such a time: interest rates were climbing and unemployment was high as the recession dragged on. President Reagan initiated deficit reduction talks with congressional leaders but the parties found their positions on raising taxes and reducing Social Security benefits irreconcilable, so Congress pushed through an alternative package. That three-year plan called for \$98 billion in tax

increases with \$31 billion in proposed spending reductions. One year later, the \$208 billion deficit was double the negotiated target of \$104 billion.

1982 Summit at a Glance

■ FY1982 deficit: \$128 billion

1982 Summit Agreement:

■ Three-year plan

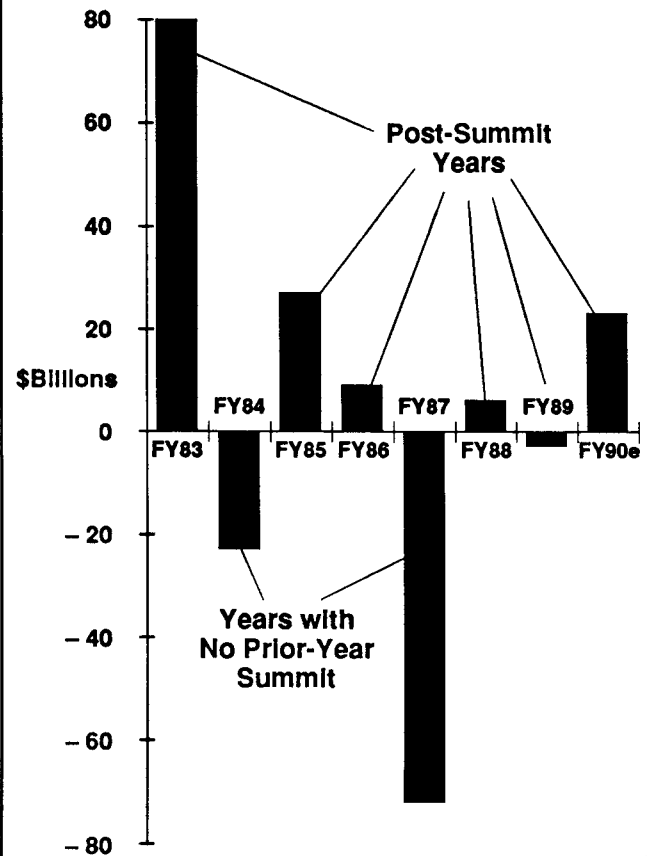
■ Revenue increases: \$98 billion

■ Spending reductions: \$31 billion

■ FY1983 deficit target: \$104 billion

■ Actual FY1983 deficit: \$208 billion

Figure 2
Change in Deficit: Post-Summit Years
vs.
Years with No Prior-Year Summit



^e First six months comparison of FY1989 and FY1990.

Source: Tax Foundation.

Replay in 1984

With the budget deficit topping \$200 billion, President Reagan once again called congressional leaders together in an attempt to trim the deficit. Disagreements over defense cuts and tax increases were the impasse this time, but several months later, new negotiations culminated in the "Rose Garden" plan unveiled at the White House. The three-year plan was intended to reduce the deficit \$150 billion, and the ensuing budget resolution envisioned a \$181 billion deficit in FY1985. Only a year later the bloom was off the rose with a \$212 billion deficit.

The result was a replay of the 1982 scenario in which taxes were raised with the proviso that for each \$1 in higher taxes, there would be \$3 in spending cuts. The tax increases went into effect immediately, but the spending cuts went the way of so many good intentions.

Between FY1982 and FY1985, receipts grew a hefty 19 percent, but spending grew even faster at 27 percent — yielding a 1985 deficit that was \$84 billion larger than in 1982. Any plan that promises to balance today's tax hike with tomorrow's spending cuts is unsound. Taxes once enacted into the code are collected, but long-term spending cuts demand constant discipline.

1984 Summit at a Glance

- FY1984 deficit: \$185 billion
- 1984 Summit Agreement:*
- Three-year plan
- Revenue increases: \$49 billion
- Spending reductions: \$110 billion
- FY1985 deficit target: \$181 billion
- Actual FY1985 deficit: \$212 billion

1985: Enter Gramm-Rudman-Hollings

Frustration with persistent budget deficits was vented with the passage of the Gramm-Rudman-Hollings law in 1985. Earlier that year, Congress and the President had reached a budget accord with the intention of bringing the FY1986 deficit down to

around \$150 billion. The plan was to reduce spending in defense, Social Security, and other domestic programs by \$52 billion. Most of these spending restraints never took place, and the FY1986 deficit weighed in at a record \$221 billion.

1985 Summit at a Glance

- FY1985 deficit: \$212 billion
- 1985 Summit Agreement:*
- Spending restraint: \$52 billion
- FY1986 deficit target: \$150 billion
- Actual FY1986 deficit: \$221 billion

1987: Response to the Stock Market

Crisis was again the cue for high-level deficit reduction talks in 1987. The October 19 stock market crash and the looming \$23 billion in automatic spending cuts under Gramm-Rudman-Hollings inspired another round of deficit dialogue. After weeks

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of closed-door negotiations, the 1987 summit implemented \$28 billion in tax increases and was to reduce spending by \$49 billion. These actions were to trim the deficit \$76 billion over the next two years. What resulted was a \$5.4 billion increase in the deficit in FY1988 and a FY1989 deficit \$11 billion over the summit target.*

That year we also witnessed the rewriting of the Gramm-Rudman-Hollings deficit targets. The new targets postponed the attainment of a balanced budget

* Reflects CBO baseline estimates; OMB baseline would imply a much lower deficit target.

to 1993 instead of 1991 as originally planned. The sound and fury of the National Economic Commission (NEC) was heard throughout the year as it carried out its mandate to recommend ways to reduce the federal budget deficit. The repeatedly delayed release of its final report, and the failure of participants to achieve a consensus is symptomatic of the government's problems with the deficit.

1987 Summit at a Glance

- FY1987 deficit: \$150 billion

1987 Summit Agreement:

- Two-year plan
- Revenue increases: \$28 billion
- Spending reductions: \$49 billion
- FY1988 deficit target: \$150 billion*
- FY1989 deficit target: \$141 billion*

- Actual FY1988 deficit: \$155 billion
- Actual FY1989 deficit: \$152 billion

* Reflects CBO baseline estimates; OMB baseline would imply a much lower deficit target.

1989: The Bite in Gramm-Rudman-Hollings

While in the usual budgetary stalemate, the President and Congress got their first real taste of Gramm-Rudman when the across-the-board spending cuts (sequester) kicked in. The sequester would have produced the needed \$16 billion in spending restraints, but the President and Congress preferred budget summitry to the sequester.

After working more than two months on budget negotiations, the President and a bipartisan contingent of House and Senate leaders gathered in the Rose Garden to declare their agreement to cut \$28 billion from the FY1990 deficit. Proposed spending cuts were to save \$13.8 billion with \$14.2 billion in

increased revenues. The real Gramm-Rudman-Hollings deficit cuts were eventually cancelled out by the bipartisan budget resolution that claimed \$15 billion in deficit reductions. The result was \$6 billion in new taxes and one-time savings gimmicks designed to hit a \$99.4 billion FY1990 deficit target. Most of the claimed deficit reduction came from such devices as accelerating tax collections, shifting spending into the following year, removing losses from the deficit calculations, and stretching out payments to federal retirees. Examination of the first half of the fiscal year shows a deficit already \$50 billion over the full-year target.

1989 Summit at a Glance

- FY1989 deficit: \$152 billion

1989 Summit Agreement:

- Revenue increases: \$14.2 billion
- Spending reductions: \$13.8 billion
- FY1990 deficit target: \$100 billion

- Actual FY1990 6-mo. deficit: \$150 billion

1990: Will History Repeat Itself?

Once again, in 1990, a sticky situation — fears of a slowing economy and possibly \$100 billion in across-the-board spending cuts — sparked deficit negotiations between the White House and Congress. Hopefully, these new talks will not be the “triple crown” of summits — resulting in higher taxes, higher spending, and higher deficits. Only 10 of the last 62 budgets paid their own way without deficit spending, and in none of the last 21 years has the budget been balanced. By the light of recent summit history, any current deficit reduction “deal of the century” could be a bad deal for taxpayers.

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