

Caught in the Box

By John T. Correll, EDITOR IN CHIEF

SUDDENLY there is talk in Washington that the \$60.5 billion that President Bush took out of the Five-Year Defense Plan (FYDP) in January may not be concession enough. Deeper cuts are now rumored, with various percentages mentioned. Thus the pattern continues. The government, it might seem, cannot stick to any consensus whatever on the level of defense spending.

The Reagan rearmament program topped out in 1985. Between 1986 and 1989, defense budgets fell 11.4 percent behind inflation. At the "budget summit" in late 1987, amid calls for realism and reasonableness, the Administration yielded \$230 billion from the FYDP and curtailed growth projections from five percent to two percent.

Accordingly, the last budget prepared by the Reagan Administration proposed two percent growth, after inflation, for defense. President Bush, however, promptly recalled that request and said he would ask instead for zero percent real growth, an inflation-adjusted freeze.

Almost immediately, the clamor began for further reductions. We should not be surprised. President Bush's January concessions will not establish a stable consensus any more than the budget summit did. If the Administration agreed today to a defense cut of ten percent, more reductions would be demanded within a year. The fact is that the federal government is caught in a financial box that it built for itself.

Over the past twenty-five years, the biggest growth in government spending has been for entitlement programs. In 1962, national defense accounted for 48.6 percent of gross federal outlays. Entitlements were 28.3 percent. By 1988, the positions had reversed. Defense was down to 25.9 percent, while entitlements had risen to 44.8 percent.

Congress has chosen to control entitlement programs indirectly, setting eligibility and benefit rules rather than voting on specific appropriations. Therefore, this huge section of the budget (\$501.2 billion in 1988) is not really budgeted.

In reality, of course, entitlement benefits are only as automatic as politicians want them to be. For example, Budget Director Richard Darman proposes eliminating a cost-of-living allowance for military and federal retirees in 1990, although COLAs for other entitlement programs would be untouched.

The next wall of the box is the tax code. As a result of tax-reform legislation in recent years, a smaller percentage of GNP is now collected as general revenue. At the

same time, Social Security taxes and collections for designated purposes have increased. This is not to say that current Social Security benefits are too generous or that the Social Security account is overfunded. The point is that the government has less flexibility than it once did in how it spends the total take from the taxpayers.

The main wall of the box is the Gramm-Rudman-Hollings Act. It requires the budget to be balanced by 1993. To ensure progress along the way, it sets annual deficit ceilings, each lower than the one before. In any year when the normal legislative process fails to reach the target (a \$10 billion margin is allowed), automatic machinery takes over and allocates spending reductions by a predetermined formula. Entitlement programs are largely exempt, and half of the automatic cuts must come from defense.

The 1990 deficit ceiling is \$100 billion, more difficult than the \$136 billion limit in 1989, but nothing compared to what comes next. The ceiling will be \$64 billion in 1991 and \$28 billion in 1992. Forecasts of the 1990 deficit range from \$126 billion to \$141 billion. By any estimate, we are still a long way from zero, and the distance could widen, depending on how bad the savings-and-loan crisis turns out to be.

Public opinion opposes a cut in entitlement programs or an increase in taxes. It does, however, want the deficit eliminated. Congress and the Administration are struggling to satisfy that desire by chopping at the discretionary portion of federal outlays, which is only 41.7 percent of the total. There is no option about paying interest on the debt or—under the rules of the box—about funding of entitlements. Together, interest and entitlements account for 58.3 percent of the spending.

There will be much talk that the nation cannot afford so much defense, but that argument rings hollow. In times past, we allotted far greater shares of both GNP and the federal budget to defense without difficulty. The difference today is the box.

With the majority of government finances running on autopilot, the politicians keep returning to defense cuts as the deficit looms. A ten percent reduction of the defense budget would not make the deficit go away. Neither would a twenty percent reduction. It is not possible to solve the problem this way if we are to have any sort of meaningful defense left.

The box is about to get a lot tighter. The only way out of it is for leaders to lead and legislators to legislate. ■