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The President's Fiscal Year 1992 Budget: Almost Quiet on the Budgetary Front

The Fiscal Year 1992 Budget was prepared under unusual conditions. The Persian Gulf War, the president's disinterest in domestic issues, the bitter debate over the fiscal year 1991 budget, and the upcoming re-apportionment all combined to make this year atypical. The result is a document in which the most substantial change is the cover—a patriotic red, white, and blue. Inside, it uses the "one book" format of fiscal year 1991. The budget examines different interpretations of the budget deficit, implements major changes in budgetary accounting, and outlines assumptions made in preparing the budget. Overall, the budget document consolidates the gains made in 1990.

This article continues *Public Budgeting & Finance's* tradition of reviewing the president's proposed budget. It concentrates on changes in the budget that promise to be enduring and will be of most interest to budget professionals—its formats, conceptual basis, and process of preparation. It begins by describing the unusual conditions in which this budget was drafted.

THE POLITICAL AND ECONOMIC CONTEXT

President Bush's 1992 budget was prepared while a war was looming, and presented just three weeks after the war had begun. Conditions in the Persian Gulf dominated the public agenda as only wars can, leading to the lowest level of public and press interest in budget proposals in many years.[1]

President Bush also contributed personally to this dampening of expectations. With a continuing, apparent disinterest in developing an innovative domestic policy that could be claimed as his legacy, the President was named as *Time's* "Men of the Year" for 1990—the involved foreign leader and the diffident domestic caretaker. An academic cynic might suspect that Bush was intent on becoming the "Great Outlier" for tests of Wildavsky's "Two Presidencies" thesis.[2]

The 1992 budget also marked the cease-fire from another "war"—the one over the budget for 1991. This year-long, full-scale domestic conflict, which resulted in the

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passage of the Omnibus Reconciliation Act of 1990 (OBRA), is capably reviewed in other articles in the Spring issue. One important feature of the truce—the multiyear agreement on the allocation of spending between defense and domestic categories—made it unlikely that the political year of 1991 would feature a debate about budget priorities. This expectation was enhanced by a variety of procedural provisions in Title XIII of OBRA, the Budget Enforcement Act (BEA), which would allow the government to escape the procedural pressures that had been a feature of the Balanced Budget Act (Gramm-Rudman-Hollings).

Not all was calm on the budget preparation front, however. The fall featured skirmishes in the continuing battle for control of the Republican party. For years, Republicans have anticipated that the election of 1992, with the open-seat opportunities created by post-census reapportionment and redistricting, will allow them to regain control of the Congress. Conservative Republicans in the House of Representatives have argued that the party must continue to broadcast the message of the Reagan revolution to take advantage of this window. When President Bush signalled his willingness to accept tax increases in June, they reacted heatedly and eventually helped torpedo the initial summit agreement in early October. Further negotiations between Bush and congressional Democrats produced an agreement even less to their liking, and confirmed President Bush's preference for a compromising rather than blame-generating strategy on fiscal policy.

But conservative criticism of the president weakened after the Republicans lost seats in the mid-term election, with a slim victory by Rep. Newt Gingrich chastening the leader of the rebellion. Both moderate and conservative Republicans realized that they needed a unified message, yet they debated—in public—what this message should be. An opening salvo was fired by OMB Director Richard Darman, who criticized the awkward brand label of "The New Paradigm" that was being advocated by White House policy aides and HUD Secretary Jack Kemp. Many of the "new paradigm" proposals were in fact old "opportunity through choice" ideas—housing and education vouchers, for example.[3] Nevertheless, Darman's speech ridiculed the "New Paradigm" as "Neo-Neo-Ism," a phrase that resembled the "Now-Now-Ism" coin of the 1991 budget. It caused great consternation among movement conservatives, some of whom called for Darman's head, and Secretary Kemp rebutted with a comment about "Social Darmanism."

The outcome of the debate was favorable towards the conservatives, as Bush praised their policy approach. ("The New Paradigm" label was not used in the budget, however. One can imagine Republicans fearing that Democrats would have relabeled it as "Buddy, Can You Sparadigm?") In addition, loss of Republican seats in the Congress increased the strategic attractiveness of confrontation relative to compromise. Noting that President Bush could claim legislative successes from his first two years (clean air, housing, disability rights, and so on), the decision was made to emphasize *symbolic* policy differences between the parties. Chief of Staff John Sununu went so far as saying that the administration would be satisfied if it did not pass another bill in the first term.

This strategic approach is reflected in the budget's modest initiatives. The strategy reduces the political importance of the budget, for some issues that Republicans project give them comparative political advantages—"quotas," for example—are perceived to be non-budgetary. For those problems thought to be amenable to budgetary solutions and for which Democrats could be expected to propose policy initiatives, the budget attempts to counter these threats. It feature proposals on educational quality, transportation congestion, and "fairness," providing at least symbolic cover to the Republicans.

Not only did war, the budget agreement, and anticipation of the election affect budget preparation and policy, but the economy also tipped into recession. Concern grew during 1990 about the prospects of recession, given the historic length of the expansion, the Federal Reserve's moderately tight monetary policy, and a regional recession in the Northeast that was led by deflation of real estate values. While administration officials did not publicly utter the "R word" until after most private forecasters, the budget forecasts a short recession from the last quarter of calendar 1990 through the first quarter of calendar 1991. In contrast to other recessions, this recession did not produce a counter-cyclical stimulus proposal in response. The projected quick recovery, the traditional Republican antipathy towards counter-cyclical policy, and the magnitude of the baseline deficit all mitigated against anti-recession initiatives.

Yet the recession also strengthened arguments against further spending cuts and tax increases, for fear of driving the economy into a deeper and longer recession. Fear was converted into horror by calculations of the effects of a worse recession on insured depository institutions. But a recession was not the only worry in this regard. Continuing the trend of discovering higher costs than most experts expected, CBO's January 1991 *technical* reestimates for deposit insurance outlays, compared to the previous July baseline, showed an increase of $82 billion for fiscal years 1991–94, and a decrease of $44 billion for 1995.[4] The budget includes a shocking table (on p. 204 of Part II) that shows a range for potential outlays for deposit insurance of $112 to $161 billion for 1991–96; the commercial bank high end is almost as much as that for thrift institutions. Deposit insurance is the fiscal equivalent of "Audrey," the plant in the show "Little Shop of Horrors" who continually cried "Feed Me! Feed Me!" It has devoured much time that staff could have devoted to policy initiatives, and will continue to do so in future years.

How else did this complex political and economic environment affect the budget preparation process? Despite the uncertainty from recession and financial instability, the process was easier than usual. OBRA settled the general allocation conflict, and access to information on remaining budgetary choices was closely controlled by OMB political leadership. Department secretaries challenged passbacks less than usual because of war preparation and its pressures on President Bush. This is not to say that he was not involved, for despite Bush's apparent dislike of broad policy initiatives, he made a much greater effort to review proposed passbacks than President Reagan ever did. The major hitch in budget preparation was the compression of time available, which when combined with the many conceptual changes required by BEA, presented OMB and agency budget staff with important challenges.

In many years, significant format changes lie within the pages of the document. This budget document runs against form, for the most interesting changes are on the outside. The document's cover abandons the perennial blue, green, or gray colors for a wartime patriotic red, white, and blue color design. Rumor in the Washington budget world is that OMB Director Darman initially favored solid red—for the budget with the largest current and planned deficits in history—but was persuaded that such impish humor, for which Darman is well known, was politically unwise. Inside, the numbers are printed in black and not red ink.

More significant are the two pages (pp. 21–22 of Part VIII) that list "OMB Contributors to the 1992 Budget." This crediting practice is new to OMB, and is conclusive evidence that the Brownlow Committee's recommendation that the White House staff maintain a "passion for anonymity" has truly faded into oblivion.[5] OMB staff divide over why their efforts were noted—because competing agencies (CBO, GAO) routinely credit staff efforts, or because of the desire of Director Darman to praise a staff that is regularly called on to perform at high levels with little thanks.[6]

Like the 1991 budget, the 1992 budget is published as "One Book," a format that seems likely to have permanently replaced the targeted volumes approach of previous years. And like the previous budget, it presents the budgetary program by "themes and priorities" rather than by budgetary functions (national defense, international affairs, and so on). The "themes and priorities" are organized by policy rationale ("investing in the future," "increasing choice and opportunity," "advancing states as laboratories," and so on).

Both the Carter and Reagan Administrations produced supplement volumes with political and policy rationales for major budget proposals; the Darman innovation is to integrate fully a rhetorical presentation of budget themes into the heart of the document. Given the often overwhelming complexity of the federal government's fiscal activities, many readers will probably be grateful for this "new ordering" of the budget into a coherent political form, even if they do not share the policy preferences of the administration.

On the other hand, the format of the 1992 budget will be inadequate for those who conceive of a budget primarily as an operating and financial plan for government agencies. The detailed schedules for agencies include little text. The index provides leads to relevant sections on agencies in the themes and priorities section, and there is a brief section that collates the "Management-By-Objectives" statements for the departments, but a thorough description of an agency's budget can be found only in appropriations justification books, which are not widely distributed. The problem for inexperienced readers is even more serious, for they will search in vain for the traditional section on "The Budget System and Concepts of the United States Government," which is now published as a separate document by the Government Printing

TABLE 1
Deficit Estimates, 1991–1996
(In billions of dollars)

	1991	1992	1993	1994	1995	1996
Consolidated Baseline	−310.3	−284.9	−212.3	− 67.5	−12.1	14.1
Consolidated Baseline with pessimistic economics	−336.1	−326.0	−262.1	−126.3	−75.3	−61.4
Consolidated Policy	−318.1	−280.9	−201.5	−61.8	−2.9	19.9
Policy excluding Social Security	−378.6	−343.3	−274.9	−151.1	−106.8	−101.9
Policy excluding Deposit Insurance	−206.6	−192.8	−157.3	− 99.9	−45.3	−10.0
Policy excluding Social Security and Deposit Insurance	−267.1	−255.2	−230.7	−189.2	−149.1	−131.8

Reprinted from Table II-1 of *The (United States) Budget of Fiscal Year 1992*, I-8.

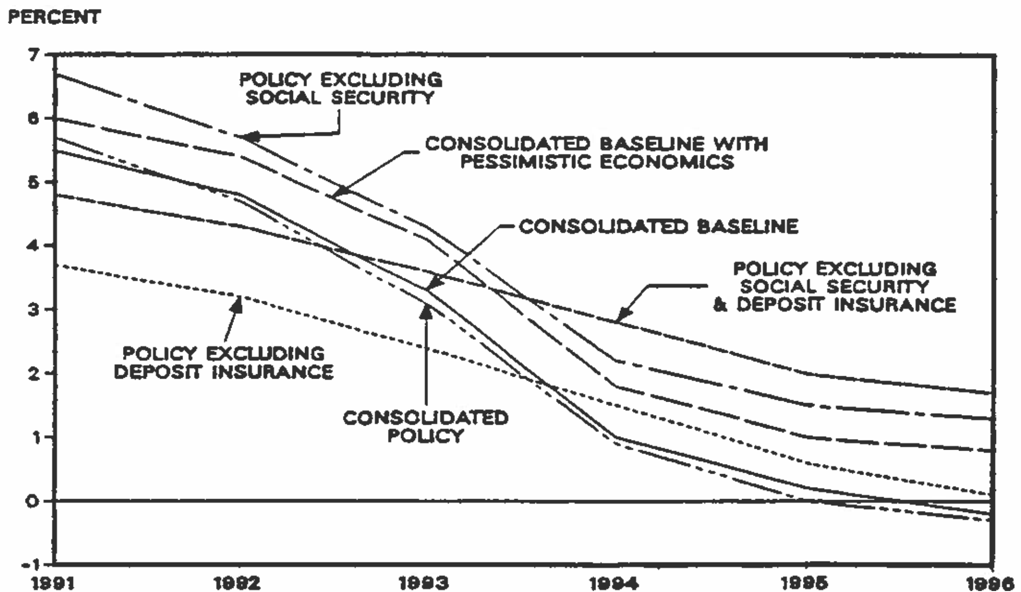
Office. These observations suggest a research opportunity—a careful comparison of the federal budget document's characteristics with the criteria used by the Government Finance Officers' Association to judge budget presentation quality—would OMB's budget make it eligible for a certificate of proficiency?[7]

MACRO BUDGETARY ACCOUNTING

In space that could have been used for description of basic budget concepts, Part VI of the budget shows ''alternative budget presentations.'' Three of the displays are traditional—a National Income and Products Accounts—basis ''budget,'' a federal funds-trust funds split, and an investment analysis (tables showing physical capital, research and development, and selected human capital outlays, and a brief description of infrastructure needs assessments). The other three displays were initiated last year to react to criticism of the basis of federal budgetary accounting. They show the budget for 1992 recast according to concepts recommended by GAO and Senator Sanford, and according to the accounting concepts used in the state of California's budgets and financial reports. While the tables appear to be prepared with care, and the differences between the federal basis and the alternative bases are identified, the conclusions that one should draw are unclear. Is the ''real deficit'': (1) the $280.9 billion of the unified budget, (2) the $402.4 billion of the GAO general funds in the operating budget, (3) the $509.7 of the general revenue funds in the state presentation, or (4) the $98.2 billion of the Sanford operating budget? One might question the worth of introducing such uncertainty into a document that has dropped other, more basic material for lack of space.

Unfortunately, the ''real deficit'' uncertainty problem shows up in the front as well as the center of the document. (Table 1 and Chart 1 reprinted from page 8 of Part I of the budget.) The chart reminds one of geological strata, and the reaction of readers may be similar to that of ''Introduction to Geology'' students who blanch at the thought of memorizing the epochs and eras of far time. Remember the ''most important recom-

CHART 1
Deficits as a Percent of GNP



Reprinted from Chart II-1 of *The (United States) Budget for Fiscal Year, 1992*, I-8.

mendation'' of the 1967 President's Commission on Budget Concepts—''a unified summary budget statement be used to replace the present three or more competing concepts that are both confusing to the public and the Congress and deficient in certain essential characteristics''?[8]

The demise of the ''unified budget'' and the reappearance of the ''consolidated'' budget label is partially due to provisions of the BEA that exclude the receipts and spending of the Social Security OASDI funds from all deficit calculations and most control procedures. Prior legislation in 1983 and 1985 had provided lesser protections to the funds, but required that the funds be included in total budget figures. Budget documents included some summary tables with the Social Security funds identified as being ''off-budget,'' but all other tables compressed the on-budget and off-budget components into a de facto unified budget. Apparently the Congress and the president decided this practice was hypocritical, and passed the new language as if they ''meant it this time.'' Yet both OMB and CBO documents continue to fold Social Security into ''consolidated'' or ''total'' deficit figures, which is the only reasonable approach. In the era of ''Too Big To Fail,'' Social Security is the program that is ''Too Big To Ignore.''[9]

The other major adjustment in the chart is for deposit insurance. CBO claims that the deficit excluding deposit insurance is "the best simple measure of the government's effect on the economy," on the grounds that deposit insurance outlays merely liquidate federal obligations that already exist and that these obligations have already affected the economy.[10] This rationale is not emphasized by OMB.[11] The chart demonstrates a significant smoothing of the baseline by excluding the short-term net outlays and the long-term net revenues (hopefully!) of deposit insurance. Perhaps deposit insurance is "Too Big Not To Ignore."

MICRO BUDGETARY ACCOUNTING AND FINANCIAL MANAGEMENT

The budget implements major changes to budgetary accounting and scorekeeping that have received little attention, even though they will reduce accounting gimmick gamesmanship. These changes are "credit reform," redefinitions of budget authority, and new scoring rules for lease-purchases and capital leases.

Most budget analysts will be familiar with general problem of budgeting for loan programs—neither direct loan spending nor guaranteed loan spending can be compared directly to "regular" forms of spending without adjusting for the time value of money, differences in interest rates, and the costs of default. The BEA's credit reform provisions seeks to make these forms of spending roughly equivalent by defining the budgetary cost of a loan or a loan guarantee to be its "subsidy value." Each credit account is now divided into three accounts. The "program" account shows separate lines for the costs of subsidies and for administrative costs. Financing cash flows for newly originated loans are shown in "financing accounts" and repayments of old loans are shows in "liquidating accounts." The latter accounts are treated as means of financing the deficit (as are changes in deposit funds and seignorage profits from coins), which keeps them from affecting the deficit. In other words, financing and liquidating cash flows are "below-the-line."[12]

Credit reform has been discussed seriously for nearly thirty years. Barriers to its adoption have been political and technical. Old credit accounting often underestimated likely costs, which gratified program advocates and often was used to reduce pressures on budget controllers. But years of Reagan-Bush opposition to many credit programs significantly reduced activity levels in these programs, and relatively low interest rates reduced subsidies for programs with fixed interest terms. Conversion to new credit accounting led to minimal adjustments in projected costs—only $2 to $3 billion in higher outlays in peak years.

The technical hurdles have not been completely cleared, however. Through 1990, staff from OMB, CBO, and congressional committees resolved by compromise disputes over how to measure subsidies and how to keep score of credit programs using the new concepts. The agencies, on the other hand, apparently failed to anticipate how credit reform would affect them. Evidence is an OMB "Budget Procedures Memorandum" that acknowledges the need for additional guidance to agencies—dated December 21, 1990, an extraordinarily late time in budget preparation to have to do this. Some credit budget examiners spent days educating agencies how to construct three

mathematically consistent accounts out of an individual credit account. Such problems of implementation are sure to continue. For example, many agencies will now have to manage loan commitments to respond to fluctuating interest rates—a task much more difficult than the determination of borrower eligibility, which many agencies do poorly now.[13]

The budget also implements changes to the definition of budget authority, for which credit is due largely to House Budget Committee staff. The most important change is for offsetting collections, which were treated inconsistently in the past. Often, budget authority and outlays were net of offsetting collections, which both reduced the reported deficit and reported activity for programs. Accounts now show budget authority and outlays both net and gross of offsetting collections. This will make it more difficult to fudge the numbers at the end of budget preparation—"Assume $500 million more collections in account X"—but creative OMB directors will no doubt find other means of making last-minute adjustments. Like credit reform, this change was purchased at the cost of increased complexity in the budget schedules.

For the new scoring rule for lease-purchases and capital leases, the story is what is *not* in the budget—a flood of creative financing packages developed to minimize first-year outlays and borrowing, but which over the long-run cause the government to spend much more than necessary for capital facilities. Lease-purchases were proposed with increasing frequency in 1988 and 1989, but OMB, led by Deputy Director Diefenderfer, along with the budget committees and CBO developed a new scoring rule in a long series of meetings during 1990.[14] The "borrowing and debt" section of the budget explains:

> It has been determined that outlays for a lease-purchase in which the Government assumes substantial risk will be recorded in an amount equal to the asset cost over the period during which the contractor constructs, manufactures, or purchases the asset; if the asset already exists, the outlays will be recorded each year to the extent of these outlays. The agency debt will subsequently be redeemed over the lease payment period by a portion of the annual lease payments. This rule is effective starting in 1991. However, no authorizations for lease-purchase agreements in which the Government assumes substantial risk are estimated for 1991 or 1992. (p. 290 of Part II)

Score a clear win for the budget purists.

The budget also hints at changes for personnel budgeting. It continues the recent and sensible practice of not requesting pay supplementals for executive branch agencies.[15] Starting in 1992, provisions of the Federal Employees Pay Comparability Act will bring salaries closer to private sector levels, and although the personnel component of the baseline now is adjusted using the employment cost index rather than the implicit GNP deflator, the discretionary spending caps are *not* adjusted for these additional costs. The budget continues the slow march towards accrual accounting with a proposal for the retirement system of the Public Health Service's Commissioned Corps. It also contains the broad hint that the general would like to convert this slow march to a quickstep (possibly to produce savings in Civil Service Retirement that could offset the salary increases):

> This year, the Office of Management and Budget will study the possibility of recording in the budget all currently accruing pension program and retiree health care costs. The purpose of this reform would be to improve management incentives and better inform Congress and the executive budget tradeoffs. (p. 280 of Part II)

Advocates of a subsuming financial management perspective may be heartened by these budgetary accounting developments. Also encouraging should be passage of the Chief Financial Officers Act of 1990, for which OMB requests funding of $4.85 million for its new Office of Federal Financial Management. The budget's section on "Strengthening Management and Accountability" details OMB's financial management strategy. This strategy includes the recent creation of the interagency Federal Accounting Standards Advisory Board and the planned integration of Treasury and OMB financial data systems (budget execution data integration has been completed).

The budget review side of OMB has also reorganized to respond to its new responsibility of tracking mandatory spending for "pay-as-you-go" scorekeeping. A remaining challenge is the continuing design of an integrated computer system for preparing the budget, scorekeeping its enactment, and monitoring its execution. The strains of operating with both the intricate Budget Preparation System and the quick-and-dirty Central Budget Management System have been well known for years.[16] Having just recently been granted funds to design and buy a new system, OMB has established a Budget Systems Revision Group to develop the "MAX" system. Given the magnitude of OMB's new responsibilities, many OMB staff must wish that such a system was in place now.

ASSUMPTIONS

A brief quote from Director Darman's discussion of economic assumptions says nearly all that needs to be said on this matter for this article:

> Prior to enactment of the Agreement's procedural reforms, there were incentives for the Administration to err in the direction of rosy projections. There were related incentives for the Congress first to criticize these projections (visibly) and then to adopt the same projections (invisibly). Now, these perverse incentives have been reduced.
>
> For this and other reasons, the Administration's projections are closer to mainstream thinking. The calendar year 1991 real growth forecast is almost identical to the current consensus forecast of the "Blue Chip" economic experts, and is actually below that of the Congressional Budget Office (CBO). The long-term growth forecast, although higher than that of CBO, is nonetheless below America's post World-War-II average. Thus, the deficit outlook presented here may be judged to be more credible than in the past.
>
> Unfortunately, however, this does not necessarily mean that it is correct. Even in the best of times, macroeconomics is a highly fallible "science." (Macroeconomists are often closer to each other than to reality.) (p. 9 of Part I)

Never has there been a clearer lesson about the magnitude of estimating uncertainty than the one from the past half-year. Table 2 summarizes CBO's analysis of the causes

TABLE 2
Changes in Budget Projections Since July
(by fiscal year, in billions of dollars)

	Deficit				
	FY 91	FY 92	FY 93	FY 94	FY 95
July 1990 Estimate	232	238	196	145	138
Policy Changes	−33	−69	−89	−131	−160
Economic Assumptions	50	63	63	70	79
Technical Reestimates	49	50	43	74	−1
Credit Reform	0	2	3	2	a
Total	66	46	19	15	−81
Current Estimate	298	284	215	160	57

a. Less than $500 million.
Source: Congressional Budget Office.

of changing deficit projections, showing that deteriorating economic and technical conditions over this half-year *entirely offset OBRA savings from 1991 through 1994.*[17] Unfortunately, the clarity of the president's budget on economic assumptions is not matched on the technical side, aside from its discussion of deposit insurance. For example, the CBO projections show 1991–95 technical reestimates of $67 billion for Medicare, Medicaid, and other major benefit programs and $49 billion for all other programs (aside from deposit insurance, national defense, and debt service), but the budget includes virtually no explanation of a mere $116 billion "error."

POLICY DIRECTION

Director Darman describes the policy direction of the budget on page 7 of Part I:

> Within the framework of the 1990 Budget Agreement, constructive reforms can be framed. Though less grand than a New World Order, steps towards a new domestic order can continue to be advanced—at least at the margin of practicable change.

The keywords are "practicable" and "at the margin." In November, OMB examiners received instructions for the Director's Review that included an August OMB analysis of two budget reduction packages prepared by congressional Republicans. The analysis of the "Pro-Growth" package is littered with OMB staff assessments of the current prospects for passage of specific proposals: "virtually no chance," "not good—this is a very popular program with state and local officials," "little potential for enactment since NRECA is such a powerful lobby," "unlikely," "the Texas delegation would be opposed," and so on. The message was that the political system was tired, and the administration was going to entertain new initiatives only if they presented few political problems.

The budget reflects "at the margin" in its desire to increase utilization of performance and program analysis. A November 27, 1990, budget procedures memorandum asked OMB staff to provide the director with a list of evaluation studies that influenced

the 1992 budget and another list of evaluations that could be commissioned to support preparation of future budgets. The results (on pages 339 to 345 of Part II) are discouraging because of the limited scope and funding for both recent and planned studies. After an intentional decade of neglect by Reagan and Bush, it will apparently take quite a while to restock the policy evaluation cupboard.[18] On the other hand, the form of policy analysis taken most seriously by the Reagan-Bush Administrations—risk analysis—is represented in a promise to implement a "risk management budgeting" process for eleven pilot programs (pages 372–378 of Part II).

The relatively low amount of change can be confirmed by using the table that summarized proposed policy changes in mandatory programs (on pages 23–25 of Part I). The absolute value of outlay changes in only 1.0 percent of the mandatory total; and 1.7 percent of the mandatory total less Social Security. Pages 346 to 366 of Part II present similar summary information on proposed terminations, reductions, and increases for discretionary programs. Tables in this section suggest absolute value changes of slightly greater magnitude—the increase side sums to $10.8 billion, for roughly 2 percent of the discretionary total (implying a rough 4 percent absolute value change total).

One must be careful in interpreting these tables and all other tables that show changes, because they use as a base the enacted amounts for 1991. This allows the administration to ignore the effects of inflation on relative funding levels. Programs suffering cuts look as if they are being cut less than they actually are, and programs receiving apparent increases may in fact have funding levels change very little. One of many possible examples is Head Start. Outlays are projected to increase from $1.952 billion in 1991 to $2.052 billion in 1992, an increase of 5.1 percent. This allows the budget to state "The budget gives special emphasis to increased investment in . . . Head Start" (page 10 of Part I), when the assumption of change in the Consumer Price Index is 4 percent. We have truly returned to a period of incremental budgeting when 1 percent real increase earns recognition for "special emphasis."

Space permits only a brief summary of proposed policy changes. The administration meets the expectations of the BEA for the three discretionary categories, and saves money over the out-years with its pay-as-you-go direct spending and revenue proposals. Defense spending declines, driven by a significant reduction in force structure. Military personnel would be reduced by about 20 percent over five years, with the largest cuts from the Army. Strategic modernization would continue, with increases for the B-2 bomber and SDI financed by reductions in older strategic systems and cancellations and reductions in many conventional systems. The uncertain costs of Persian Gulf operations and the exclusion of these costs from the budget will cause an early and substantial modification to this portion of the budget.

The domestic discretionary category features significant increases for space, science, and crime and drugs, financing them with cuts from a wide range of programs—Community Development Block Grants, low-income energy assistance, health professional training, termination of the ICC, and so on. Other domestic budget functions are relatively unchanged in total spending, but the administration proposes some interesting program tradeoffs within them, justified with the following:

> In a world of fixed spending caps, there will be no room for emerging priorities if the programs-of-old remain immortal. To allow adaptation to shifting priorities, there will have to be a more dynamic concept of program life-cycles. (p. 19 of Part I)

Some of the proposed savings are direct challenges to congressional selection of individual projects. The aforementioned section on terminations, reductions, and increases argues clearly and sensibly that "many projects funded by the Congress do not meet established programmatic standards established by Congress itself" (page 346 of Part II). Other savings are proposed because of a lack of clear federal purpose, the completion of original missions, or low priority. These proposals redirect funds from highway demonstration projects and other place-specific grants to the highway formula programs, from impact aid to "educational excellence" programs, and from existing housing programs to the new HOPE and HOME programs. There is also a thinly documented proposal for consolidation of selected grant programs into a block grant. Though there is a promise to hold states harmless in funding, the list of programs include impact aid, low-income energy assistance, and subsidized housing.

Among the largest percentage increases in this category are the appropriations for the legislative (16 percent above current services) and judicial branches. The administration prints these requests without modification, but is sure to publicize them in the future.

The largest mandatory spending proposals reduce payments to teaching hospitals and for high-cost physician services, and require coinsurance for laboratory services. The budget also features a variety of "fairness" proposals—increasing premiums for high-income Medicare Part B participants and denying Commodity Credit Corporation participation to those with high non-farm income—both with cutoffs of to $125,000. It will be bizarre if the "truly needy" debate accepts this figure without considering lower ones. Other "fairness" provisions relate school meal subsidies to individual incomes and tighten student loan eligibility.

Revenues are clearly off the table, and probably not even in the pantry. The only significant tax increase is an extension of the hospital insurance tax to state and local employees. The extension of some preferences scheduled to expire at the end of 1991 and a new IRA cause revenue losses. Finally, the administration again proposes a capital gains tax reduction, but President Bush has placed it on the back burner by asking Federal Reserve Chairman Greenspan to settle the dispute over its revenue effects.

FUTURE FISCAL FOUNDATIONS

Charles Schultze suggests that large, continual deficits can be viewed metaphorically as termites, which are capable of eating away the foundation of a wooden building without being seen. Expanding on this metaphor, OBRA released a poison that will hopefully reduce the reproduction rate of the termites. A full-disclosure exterminator would note, however, that the poison is time-released, with many deaths projected to occur in four to five years.

It is paradoxical that many appear to believe that events scheduled for the far out-years will occur, even though until quite recently they seriously doubted the accuracy of multiyear projections. Perhaps this is a risk of multiyear budgeting—when we expand the planning horizon to measure costs more accurately, we tend to give ourselves better odds that the projections will be accurate. Yet one need not be cynical to imagine that intervening events will conspire to shift the baseline up the vertical axis once again. While recent history provides cases in which the baseline has shifted down (the "end of the Cold War," the turnaround for farm credit), many more cases have increased deficits "unexpectedly."

The general issue this raises is the proper strategic course for the Bush Administration on budgetary policy. The tactics of 1992 respond well to the context created by the significant changes adopted in OBRA, the demands of the war, the recession, and other factors. In the short run, it makes sense to consolidate the gains from 1990. But given the risk that the deficit will again be increased to a level once thought beyond the realm of possibility, shouldn't these tactics change in the summer of fall of 1991, or at the very least in next year's budget? Or will Bush wait until after the next election?

NOTES

Thanks to OMB staff for information in phone and personal interviews.

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2. Aaron Wildavsky, "The Two Presidencies," in Wildavsky, ed., *Perspectives on the Presidency* (Boston: Little, Brown), 448–461.
3. Burt Solomon, "Power to the People?" *National Journal* (Jan. 26, 1991): 204–209.
4. Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1992–96* (Jan. 1991), 69.
5. Frederick C. Mosher, *A Tale of Two Agencies* (Baton Rouge: Louisiana State University Press, 1984); Bruce E. Johnston, "From Analyst to Negotiator: OMB's New Role," *Journal of Policy Analysis and Management* (Summer 1984): 501–515.
6. Marjorie Williams, "The Man With All The Answers: What Makes Dick Darman Run," *The Washington Post Magazine* (July 29, 1990): 10–15, 25–33.
7. Robert C. Rickards, "City and County Budget Presentations in Texas: The Current State of the Art," *Public Budgeting & Finance*, 10 (Summer 1990): 72–87.
8. *Report of the President's Commission on Budget Concepts* (Washington, D.C.: Government Printing Office, 1967): 7.
9. David Koitz, "Social Security: Its Removal From The Budget And New Procedures For Considering Changes To The Program," *Congressional Research Service* (Jan. 2, 1991).
10. *The Economic and Budget Outlook: Fiscal Years 1992–1996* (Jan. 1991): xv, 19.
11. OMB might be concerned about the following issues: (a) If deposit insurance flows are not included in the deficit, then should historical deficit figures be adjusted to show these costs in the earlier (Reagan-Bush) years?; and (b) Many other outlays also liquidate obligations—should they not also be excluded?
12. See Marvin Phaup, *Credit Reform: Comparable Budget Costs for Cash and Credit* (Congressional Budget Office, Dec. 1989).
13. General Accounting Office, *Credit Management: Widespread Loan Origination Problems Reported*, (Nov. 1990): (AFMD-91-7).
14. Lawrence J. Haas, "Lost in Space," *National Journal* (April 28, 1990): 1028–1030.

15. See Kim Burke, David J. Horowitz, and Roy T. Meyers, *Supplemental Appropriations in the 1980s* (Congressional Budget Office, Feb. 1990): 23–24, 41–42.
16. Hugh Heclo, "Executive Budget Making," in Gregory B. Mills and John L. Palmer, *Federal Budget Policy In The 1980s* (Washington, D.C.: Urban Institute, 1984): 255–291, particularly 281–283.
17. *The Economic and Budget Outlook: Fiscal Years 1992–1996* (Jan. 1991): 69. A complete analysis of the economic and technical assumptions in the 1992 budget is provided by CBO, *An Analysis of the President's Budgetary Proposals for Fiscal Year 1992* (March 1991).
18. See Walter Williams, *Mismanaging America: The Rise of the Anti-Analytic Presidency* (Lawrence, Kan.: The University Press of Kansas, 1990).