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THE ARMY'S FUTURE AND THE GRAMM-RUDMAN-HOLLINGS LAW

BY

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THE ARMY'S FUTURE AND THE GRAMM-RUDMAN-HOLLINGS LAW

An Individual Study Project

by

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CHAPTER 1

INTRODUCTION

Gramm-Rudman-Hollings Act (G-R-H) has gained considerable public attention since it became law in 1985. Many questions have been raised during this period as to whether or not the G-R-H law is necessary in reducing the budget deficit. Lawmakers have questioned whether G-R-H is the way to do business in government. The principal question asked by economist and lawmakers alike is can G-R-H work and if so, will it play an influential role in the budget process for the future.

The history of G-R-H has been marked by many debates arguing for and against the need for statutory legislation to solve our budget deficit problems. Senator Foley recently argued this by stating that "no amount of tinkering with the legislative process can substitute for a commitment to get spending under control. Some people look to procedural changes to get us out of our current mess . . . "Will is what is needed."[1] Foley summed up his argument by stating "there are no shortcuts on the road back to fiscal responsibility and economic health."[2] Senator Gramm, one of the original

sponsors of G-R-H, recently commented on this same issue by offering a different point of view. "Without the law [the] federal deficit would have been larger than it is."[3] Rep. Willison D. Garrison, Jr. (R-Ohio) also agreed with Senator Gramm's views on the budget deficit reduction process that G=R-H is "not the best way to cut the deficit--it appears to be the only way."[4]

As a nation we have demonstrated an enormous appetite to consume and live beyond our means. We have sold assets and borrowed heavily both domestically and abroad to finance an unprecedented expansion of domestic programs and to maintain the momentum of defense programs and the military build up of the 1980s.[5] G-R-H was considered the most acceptable alternative among the political choices for solving this pressing issue.[6] House Minority Leader Trent Lott (R-Miss) described the G-R-H choice as a 'train wreck' because "the advantage of a train wreck is it does stop [whereas] chaos goes on forever."[7] Since G-R-H became law, it has achieved for Congress the major goal of focusing attention on the deficit problem and creating strong incentives to seek positive and reasonable solutions before having to implement automatic spending cuts.[8]

G-R-H has not worked as it was originally intended, but it has made an impact on the budget deficit by decreasing the size of the deficit from 221 billion dollars in 1986 to an estimated 116 billion dollars in 1989.[9] The law has imposed much needed fiscal discipline on Congress and it has provided the forum to downsize or eliminate some spending programs whose only support was from special interest groups.[10] It has also given Congress a tool to help them make the hard choices.[11] Paring down programs and controlling unconstrained spending were major objectives of G-R-H; however, the way in which the bill was designed to accomplish this task has been a source of concern for many in the government. The method of executing across-the-board cuts makes little or no rational sense over the long haul for a deficit reduction strategy. It lacks flexibility and does not address national priorities. Successive application of the spending reduction provision will cause imbalances and shortages between critical competing defense and non-defense programs.[12]

However, the deficit problem remains a serious problem in the eyes of the public today. The growing public concern with the budget deficit continues to influence our lawmakers and will have a major impact on the upcoming budget process

for FY 1991. With the current focus of Congress to save money and reduce the budget to meet the mandated deficit ceilings of G-R-H, past budget priorities seem certain to change. The high priority that the defense budget enjoyed in the 1980's may well be affected and changed as a result of the new thinking that has been generated by the current economic and political climate. Based on recent budget deliberations and congressional action, it is likely that the defense budget will continue to be cut to meet the demands of the public and to show a willingness to respond to on-going international events.[13]

Secretary of Defense Richard Cheney has responded to these political and budgetary forces by making significant cuts in the services' budgets over the next five years. Congress has acknowledged these cuts but only considers them a down payment for bigger budget cuts in the near future. Representative Barney Frank (D-Mass) expressed the sentiment of many congressmen when he stated that Congress was "going to cut the hell out of the defense budget."[14] It is with this attitude and Congress' determination for long term reductions that the services face serious challenges in maintaining adequate resource levels to support readiness and on-going modernization programs.

For the last five years the budget process has been influenced by the decisions driven by G-R-H. These decisions have played a key role in shaping defense budgets, all of which have shown a steady decline since 1985. With current international events and public concern over the budget deficit, G-R-H will probably not diminish its role in influencing budgetary decisions. Considering these events it can be concluded that the government has reached a cross roads in shaping budget strategy and priorities for the 1990s.

The need to assess and develop a comprehensive strategy that meets our national security requirements is absolutely essential. This new era of peace and prosperity requires the services to review and assess their current programs insuring that their budgets are in line with national strategy and that efforts to reshape and restructure forces are made in a sensible, deliberate, coherent way that will serve our national interests but do not increase the risks to our national security.[15] This measured approach to reducing the size of the armed forces in controlled moves and phases may conflict with a G-R-H driven draw-down which requires a much deeper and faster cut in defense force structure and budget. This difference in fiscal philosophy and objectives creates

opposing points of view between Congress and the services. Any hopes of resolving these issues seem to be remote considering the mood of the Congress and the current changes in the world's political order, especially in Eastern Europe.

This point was made clear by Senator John Glenn when he recently complained about the administration's failure to reassess the nation's overall military strategy. He specifically said, "Our combat posture must be set up pursuant to well-thought-out, well defined national strategy and what our goals are around the world . . . Redefining our responsibilities around the world - that has to come first."[16] It is in light of this and the realities of G-R-H that the paradigms used by the Defense Department to create military budget and force structure strategies must be radically changed. The events of today with the realities of declining budgets argue that we no longer can do business as usual. It is becoming increasingly clear that a radical approach for change will have to take place within the Department of Defense and the Army if they are to deal with the declining resource base and projected reduction of forces in the 1990's.

The Army is currently supporting systems and force structure that were resourced with dollars funded during the Reagan years. Logic clearly shows that the modernization programs implemented during these years cannot be continued if the existing forces are to be maintained at a high level of readiness.[17] The roles and missions of the Army will have to be matched with the existing threat and resource limitations as it begins to build-down and restructures itself. Force structure and budget actions must not be totally driven by G-R-H. Care must be taken to insure that decisions and outcome for each area work in consonance with a strategy that clearly articulates what the end state of the Army will be.

As the draw-down begins the Army as well as the other services will need to have a coherent strategy that provides a road map for force and budget reductions. Each decision and move must be made in accordance with a well defined plan and not just the result of decisions forced on the Army by G-R-H. The goal is to achieve the end state that allows the Army to perform its missions with forces that are trained and equipped to meet any contingency requirement and task.

A comprehensive game plan by the Army will help it to

anticipate new mission requirements while avoiding conflicts with national priorities and future budget strategies. If a successful strategy is implemented, the Army may avoid the problems of build-down turmoil that could leave it in worse shape than the pre-Reagan build up position.

Taking into account these factors, I will review G-R-H as law and assess how it has impacted on the defense budget process and the trends that have developed since the G-R-H enactment. I will also attempt to develop and provide some thoughts as to how the Army budget and force structure process will be changing to accommodate a declining budget under G-R-H while also taking into consideration the most recent changes that are occurring throughout the international community.

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CHAPTER 2

BACKGROUND

Since 1960, budget deficits have become a way of life. Only once during this period has there been a budget surplus and only twice has any administration succeeded in balancing the budget. During this three decade period the federal debt has grown at a rate of 3.1 percent per year and today it is approaching 3 trillion dollars.[1] This trend is not a recent phenomenon. Over the past century, public spending has been rising at an annual rate two to three percent faster than the gross national product. The ramifications of this trend are significant because if it continues, the U.S. could be confronted with economic stagnation that now plagues many countries in Europe.[2]

The growing national debt coupled with annual budget deficits has become a way of doing business in Congress. Congressional attitudes toward deficit spending can be attributed in part to a phenomenon known as Keynesian Economics. The economic principles supported by this theory succeeded in creating a view in Congress that budget deficits were important to maintain a responsible fiscal policy.[3] The

Keynesian economic model used by most policy makers after 1930 encouraged a change to the old-fashioned belief that balanced budgets were critical to sound budget policy.[4] The underlying principle supported by this new thinking was that budget deficits and surpluses should be used to help balance the economy and not the budget.[5] Prior to the introduction of this economic theory, noted scholars like C.F. Bastable and other economists maintained a view on budget policy that emphasized "outlays should not exceed income . . . [and that] tax revenue ought to be kept up to the amount required to defray expenses."[6] Changes in government norms and shifts in attitude on fiscal policy helped make fundamental changes to the budget process and eliminated many fiscal constraints previously supported by Congress. These attitude changes helped dissolve the prevailing ethos that budget deficits were a sign of fiscal irresponsibility. As a consequence, rapid changes took place between the Roosevelt and Kennedy period in which the majority of lawmakers believed that government spending was good and that "good" budgets were those that spent more to help the people.[7]

The budget deficits we face today can be attributed to the budget policies followed by our elected officials over the

last 30 years. They have exercised the advantages gained through budget deficits by attempting to satisfy their constituents with public outlays and spending programs.[8] Professor James Buchanan, a noted economist, supported this thesis in which he stated "politicians make decisions with a view to what will be popular with the constituencies that keep them in office." He contends public debt is a function of a politician's tendency to favor special interest, even at the expense of fiscal responsibility.[9]

In a debate over spending limitations and a balanced budget, Senator Hatch made the point that the legislative process cannot be entrusted to make spending and taxing decisions in a responsive and responsible manner because of the existence of biases that lead to higher levels of spending and higher levels of taxes. These biases according to Senator Hatch exist because they offer political advantages gained from supporting spending programs.[10]

Congress, faced with competing issues of balanced budgets and spending programs for the public, is perplexed as to how both can be accomplished to satisfy the demands and needs of its constituents. In view of mounting problems

caused by runaway spending, Congress attempted to solve this issue, by passing different legislation to limit expenditure growth over the last 20 years. A summary of the fiscal and budget legislation history is listed at Appendix I. Because of Congress' futile efforts, the atmosphere of frustration left congressmen, as well as the public, confused as to what fiscal programs they really wanted to develop.[11] As Van Ooms, chief economist for the House Budget Committee commented that the public "understands you need more taxes [and controlled spending programs], but on the other hand they don't want to pay more." Stanley Carter, an expert on federal budget policy, concludes "constituents don't want programs cut or taxes increased yet they want the deficit reduced.[12]

With continued budget deficits and a national debt that was approaching 2 trillion dollars in 1981, constituent pressure increased and political action demanded Congress reform the federal budget process. The overriding public concern during this period was for Congress and the President to gain control of the federal budget process and eliminate the budget deficits. Congress responded to the pressure and passed legislation that required compliance by both Congress and President to reduce budget deficits. The legislation

imposed budget constraints and established procedures that would ultimately lead to a balanced budget in 1991. Public Law 99-177, The Balanced Budget and Emergency Deficit Control Act of 1985, commonly referred to as the Gramm-Rudman-Hollings Bill, was passed by Congress and signed by President Reagan on December 12, 1985, to meet the political challenges of reducing the deficit and make the reforms necessary to enforce a disciplined budget process. Upon signing the bill, President Reagan emphasized his desire to solve this nagging national issue by stating "deficit reduction is no longer simply our hope and goal--deficit reduction is now the law."[13]

The G-R-H bill has had many critics, some of whom still do not believe it is the solution to our budget problems. Past Speaker of the House Jim Wright saw G-R-H as a "straight jacket" that was created to force budget discipline on the law makers.[14] Senator Pat Moynihan described the bill as a "suicide pact." Senator Thad Cochran (D-Mass) took another view and said "support for G-R-H clearly signals the problems elected officials face in choices that would balance the budget: cutting back programs that are important to constituents or asking voters to pay for those programs with higher taxes. There is too much pressure on the Congress to

say, 'no, no, no, no.' They like to do things for the people."[15] Senator Gramm also viewed the bill as essential and one that many congressmen could endorse. He viewed the legislation as "a way of making all branches of government rethink what the government does and what it is willing to pay for."[16]

Clearly, G-R-H is controversial legislation. It has been law for several years and now has developed a track record that elicits various opinions about its performance and effectiveness. No matter what the opinion, G-R-H has captured the attention of Congress and the public, and without question, will be a major political factor in the federal budget process throughout the 1990's.

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15. Elizabeth Wehr, "Budget Balancing Decisiveness vs Caution," Congressional Quarterly, 26 October 1985, p. 2149.

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CHAPTER 3

THE MAKING OF A BILL

In 1981, President Reagan faced serious problems with the state of the economy. Inflation was considered by the general public to be one of the most pressing issues facing our nation.[1] The President's commitment to economic recovery coupled with his pledge to strengthen defense was countered by an equally committed Congress to provide for social programs and increase spending for domestic issues. These conflicting national priorities between Congress and the President resulted in annual budgets that could not be supported except through heavy government borrowing.

As a consequence of these actions, the gap between revenues and outlays continued to grow in staggering proportions throughout the early 1980's creating a budget deficit that exceeded 200 billion dollars in 1983.[2] This uncontrolled growth in the federal deficit caused domestic and international alarm resulting in new public pressure for quick political action.

The rise and intensity of concern over deficits and

Congress' frustration at its inability to control deficit growth created the political climate necessary to arrive at a solution.[3] Capitalizing on these events three Senators, Gramm (R-TX), Rudman (R-NH), and Hollings (D-SC), introduced a budget-balancing bill that would balance the federal budget in six years by 1991. The bill was attached t[illegible] debt extension bill for FY 86 which was to raise the cei[illegible]ne federal debt to an unprecedented 2.079 trillion dollars.[4] The bill had to be passed for the government to avoid default. Senator Dole in Senate deliberations stated that the amendment was essential because "Congress could not make hard budget choices." The bill indicated "to the American people that we [Congress] are serious about trying to end the deficit."[5]

Most senators felt that G-R-H would be key to breaking the political deadlock which prevented effective congressional action against the deficit.[6] Senator Rudman summed up the majority opinion of Congress when he said "we can no longer say that the President can do it - but will not. We must put into the system some institutional discipline, if you will, a backbone transplant so that Congress lives up to its responsibility." When informed of the Senate action, President Reagan hailed it by issuing a statement calling this initiative "a step in the right direction."[7]

On November 1, 1985, the House passed its version of G-R-H and immediately went into conference with the Senate to arrive at a compromise bill. In order to achieve a compromise bill, the House and Senate conferees had to reach agreement on two contentious issues: welfare program exemptions and implementation of the plan in FY 87.[8] On December 6, 1985, a compromise was reached and both issues were included in the bill. Poverty programs would be exempted and the deficit reduction goals would be applied to the FY 86 Budget. The budget-balancing measure (HJ Res 373-PL99-177)was cleared late on December 11 and signed into law by the President on the next day.[9]

The passage of the G-R-H bill was a departure from the normal legislative process. The consequences of G-R-H were uncertain and the process used to achieve a solution was unprecedented in that it bypassed the normal systems of formal hearings, Senate and House reviews and conferences. Although the G-R-H received an over-whelming vote in both Houses, many members expressed some reservations about the bill. The abbreviated process contributed to much of the misunderstanding and lack of congressional and public understanding of G-R-H.[10] Specifically, Senate Budget

Committee Chairman Pete V. Domenici (R-NM) spoke of his concerns about the passage of the bill by stating "I don't think anybody can predict how the way we do business will change. But it will be dramatic." He further stated "that chaos, confusion and disorder could result from this bill" , however, if that is what is needed to bring a solution to the problem, he quipped, so be it."[11] G-R-H has always been controversial and even today after several iterations of the budget under G-R-H, it is still difficult to project how the budget formulation process will continue to be affected by the budget deficit legislation. Many congressmen still question the wisdom of G-R-H but none have come up with an adequate solution or alternative that solves the budget deficit problem. It is the lack of an alternative solution that makes G-R-H particularly effective and influential in the budget formulation process today. The bill "is an inducement for Congress to get on with [their fiscal responsibilities and] to make the difficult choices."[12] With G-R-H difficult budget decisions can be made without congressmen suffering the political consequences of their decisions. Senator Rudman, a coauthor of the G-R-H, described his bill in a way that illustrated his frustration in trying to come to grips with the issues of constituent pressure and the need to reduce the

budget deficit. He said his bill was "a bad idea whose time had come."[13] For better or worse, G-R-H now provided the legislation that would force Congress and the President to work together and solve the budget deficit problem.

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CHAPTER 4

G-R-H PROVISIONS - HOW IT IS IMPLEMENTED

The Balanced Budget and Deficiency Control Act was passed by Congress to gain control over the budget deficit. This law established strict budget procedures and time tables for the budget formulation process. The intent was to enforce a disciplined budget process on Congress and reduce the budget deficit. To accomplish this goal, G-R-H, as amended by the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987: PL 100-19, established a requirement that the President and Congress must produce an annual budget that would reduce the deficit by 36 billion dollars a year until the budget was balanced in FY 1993.

The table below highlights the original and revised deficit ceilings and shows the actual deficit by year.[1]

FY	PL 99-177 Deficit Ceiling	PL 100-19 Deficit Ceiling	Actual Deficit
86	171.9		221.1
87	144.0		149.7
88	108.0	144.0	155.1
89	72.0	136.0	161.4*

90	36.0	100.0	116.2*
91	0	64.0	
92		28.0	
93		0	

*Estimates by the Congressional Budget Office

A summary of the G-R-H provisions is provided along with a brief discussion of the key provisions to better understand how the bill was designed to function in reducing the budget deficit.

* G-R-H establishes annual federal budget target ceilings through FY 1993.

* G-R-H budgetary procedures are triggered if the deficit exceeds the G-R-H ceiling by more than 10 billion dollars. If this occurs, funds are withdrawn and budget authority is cancelled. This system of automatic cuts is called sequestration. (Sequestration can be avoided only if Congress and the President come to an agreement on legislation that would reduce the deficit.)[2]

* If G-R-H is triggered and sequestration is directed by the President, the mandated reductions are made to the deficit target ceiling.

* Automatic cuts are equally divided between defense and non-defense accounts.

* G-R-H requires across-the-board cuts be made at the program, project, or activity (PPA) level by a fixed percentage established by sequestration computation rules. When this takes place, 100 percent of the deficit reduction comes from approximately 40 percent of the budget. The remaining 60 percent of the budget is made up of programs exempted from the automatic cuts and include Social Security, Medicaid, aid to families with dependent children, nutrition programs, Supplemental Security Income, food stamps, veterans' compensation, veterans pensions and interest on the national debt.[3]

* Federal retirement cost-of-living adjustments (COLA's) will be used to reduce the outlays in defense and non-defense programs. The COLA adjustments come off the top with defense and non-defense accounts credited with an equal share of the

COLA reduction.

G-R-H provisions are triggered when budget estimates (consensus projections) made by both the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) indicate a budget deficit exists and additional spending cuts are needed to meet the established deficit target ceiling. The deficit for a fiscal year is based on the difference between requested spending and anticipated revenues. Once the size of the deficit is determined, spending reductions are calculated for all non-exempt programs to eliminate the deficit excess and achieve the maximum allowable deficit mandated by G-R-H.[4] The timetable for the budget reduction process is summarized in Appendix II which highlights those events that occur with sequestration.[5]

A key feature of the G-R-H budget process is the automatic spending-cut provision, better known as sequestration. A review of how this works is best illustrated by using recent FY 1990 budget figures. On October 16, 1989, automatic cuts required by G-R-H took full effect with President Bush issuing the sequester order for 16.2 billion dollars in across-the-board cuts to be applied to all

non-exempt programs. These cuts were required because Congress could not agree on a budget cutting package to stay within the G-R-H 110 billion dollar deficit ceiling for FY 1990. [6]

The sequestration order presented the Pentagon with a situation that potentially could have had severe consequences for many of its programs. Under G-R-H, military spending reductions are disproportionate and weighted. Since program cuts are calculated on the basis of outlays for the current fiscal year and unobligated balances from previous years, the total sum of military program cuts would exceed 50 percent. Because spending cuts must be taken across-the-board and applied to each appropriation, it becomes clear that this system to reduce spending both eliminates flexibility and circumvents rational assignment of relative priorities to defense programs and activities.[7]

For example, many defense appropriations - such as manpower programs - budget authority equals outlays for the current budget year. But for other appropriations, such as procurement - budget authority is held over from year to year to accommodate such things as programmed construction lags. In the slow spending programs, large amounts of budget

authority must be reduced to yield the proper amount of outlay cuts. Therefore, one year outlays for slower spending programs require a much higher spending cut ratio of budget authority. Normal defense calculations to meet a given outlay target must reduce the budget authority by an average of 2 to 3 times over that of the outlay authority. A few example of the ratios required to achieve these spending cuts are listed as follows: military personnel 1:1; operations and maintenance 3:4; procurement 1:8; RDTE 1:2; construction 1:5. Using these ratios to achieve the desired cuts causes appropriated budget authority to suffer disproportionately larger cuts in selected programs in order to achieve a comparatively smaller savings in outlays.[8]

Based on a total budget deficit of 116.2 billion dollars and the deficit target ceiling of 100 billion dollars, a difference of 16.2 billion dollars was identified as the excess deficit to be reduced from the budget. Using the 50 percent rule, the defense share of the budget reduction totaled 8.1 billion dollars in outlay cuts. To achieve this outlay target, budget authority reductions had to total 13.3 billion dollars. Mr. S. O'Keefe, DoD Comptroller, testified to the Senate Armed Service Committee and summed up the impact

that sequestration had on the FY 1990 budget. He concluded that the requirement to take across-the-board cuts with no discretionary adjustments to mitigate the differing impacts of the reduction on individual programs was the most serious challenge for the defense leadership to manage. He continued by saying that the major task in DoD was to manage the sequester reduction in a manner that would limit the damage to priority programs and maintain balance between quality of the force, readiness and modernization.[9]

The provisions of G-R-H have created considerable problems for Congress during the budget formulation process. However, it has been recognized by most congressmen that some form of control had to be established if the budget deficit was going to be reduced. The importance of the G-R-H provisions and its significance in gaining control of spending programs was recently commented on by Rep. Leon E. Panetta (D-Calif). He said, "G-R-H is like a lifeboat. . . [it] represents both failure as well as hope . . . Failure because [Congress] failed to break the political logjam . . . over putting controls on defense, entitlements and taxes; failure because [Congress] had to resort to the automatic mechanism to force what we should [have done] through compromise and

voting."[10]

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CHAPTER 5

G-R-H AND THE FY 90 BUDGET

G-R-H has made a significant impact on the FY 1990 defense budget. The pressure facing Congress and the President today is to continue to reduce the size of the defense budget. This trend has developed as a result of the economic concerns confronting the nation and the large federal debt that continues to grow at an unprecedented rate. These concerns coupled with current world events have changed our thinking in regard to our national security needs and what role the United States should be playing as a world power. The changing strategic equation causes us to redefine and reassess the security threat of our nation. This reassessment, along with Congress' desire to reap the potential "peace dividends" and "plow [them] back into domestic programs like housing, education, and child care"[1] will certainly have to be continually addressed and weighed as budgets are formulated, debated and approved.

Politics and the G-R-H process to reduce the budget deficit have come into conflict numerous times over the past five years. Separating G-R-H from politics has proven to be

a major source of frustration for Congress. Senator Hollings, exasperated by Congress' failure to seriously deal with the budget deficit as a result of numerous political maneuvers and pork barrel legislation, described the G-R-H bill as a "shill and a sham."[2] The new FY 1990 budget process clearly showed the political manipulation of G-R-H to achieve congressional and presidential budget goals.

Professor Alan S. Blinder, a noted economist at Princeton University, predicted the use of G-R-H as a tool that could encourage "political brinkmanship."[3] He noted that G-R-H allowed members of Congress to support deficit reduction policies but do so without supporting spending cuts or tax increases.[4] President Bush's attempt to cut the capital gains tax and Congress' reluctance to make real spending cuts to reduce the deficit resulted in the President declaring that he would impose spending cuts mandated by the G-R-H deficit reduction law. The implementation of this draconian "sequestration" provision was regarded as a threat that would never materialize when the bill was passed in 1985.[5] It was felt that this mechanism to impose spending cuts on so many government programs would not be a viable alternative for Congress and, therefore, would be avoided at all costs, thus forcing compromise and consensus in the budget process.[6]

When the sequester order was issued by the President, key members of the administration and Congress considered that the defense programs affected by G-R-H would fare as well under sequestration as they would in a budget reduction bill negotiated in a democratic controlled Congress. It was generally felt that the priorities of a democratic Congress did not correspond with those of the President. Administration officials also believed that Congress would act to bail out critical programs pushed into a crisis situation by sequestration.[7] House Minority Whip, Newt Gingrich, supported the President's position and declared that "if we can't get a *good budget reconciliation* bill, sequestration isn't the worst thing in the world."[8] Needless to say, this exemplifies Professor Blinder's prediction of political brinkmanship and the willingness of the President to gamble that permanent sequestration would not come to pass. This strategy may have set the tone for future budget negotiations between Congress and the administration, and possibly destroying any good will that may have been established early in the budget process between the two.

Clearly from the beginning of the FY 1990 budget process, the defense budget was not going to realize the growth it had

initially anticipated the previous fiscal year. Congressional members made it patently clear that if the budget was going to be successful in passing congressional review, the defense budget could not exceed zero growth.[9] That view was forged by competing domestic issues and the need to constrain outlays to hold the deficit within the G-R-H statutory ceilings. Consequently, a no-growth budget for FY 1990 was proposed under these conditions. This was consistent with the previous five years of budgets that experienced a reduction or negative growth trend under G-R-H.

After an initial review of President Reagan's budget, Congress and the new administration agreed to a budget action plan in April 1989 that met the budget deficit requirements. It also established the FY 1990 defense budget 10 billion dollars below that which was established in the Reagan January Budget. This budget cut put defense spending 1.2 percent below the FY 1990 budget and forced tough decisions that ultimately affected force structure accounts and weapon system modernization.[10]

On October 16, 1989, when President Bush issued the sequester order, there was optimism that a deficit reduction

package could be obtained and permanent sequestration avoided. As negotiations between the House and Senate failed to achieve a suitable reconciliation bill, President Bush announced he was prepared to accept a sequester under G-R-H rather than accept a reduction package that did not achieve budget savings.[11]

By standing firm on his pledge to cut the deficit and operate if necessary under a permanent G-R-H sequestration, the results of President Bush's actions were major program adjustments in the FY 1990 Defense Budget. On November 21, 1989, President Bush redirected the goals and azimuth of the Defense Department by signing into law the defense appropriation bill that maintained an adequate resource level of three top defense priorities - quality force, training and readiness - but forced reductions in force structure and acquisition programs.[12] The hard line taken by the President on sequestration forced Congress to make real cuts and possibly, as a future consequence, will make the FY 1991 budget process more difficult to achieve consensus and approval. In fact, lawmakers who first bristled at the President's demands for genuine savings are now making statements that they intend to hold the administration to

similar standards for FY 1991. Senator Sasser underscored this overall attitude by saying he felt "we're operating under new standards of purity. I like them so much, I'm going to insist on them next year."[13]

G-R-H requires 36 billion dollars in savings for FY 1991. This will require deep spending cuts and no anticipated increase in revenues. Mr. Darman, Director of OMB, has on a number of occasions projected that the size of the deficit gap for 1991 is going to be very large. This means, to avoid accounting gimmicks, public and congressional pressure may be brought to bear to further depress defense spending rather than to reduce or curtail other domestic programs that have constituent support and appeal.

Future cuts in defense spending will have serious impact on the services' ability to properly man, equip and train its force. The Army, in particular, will be required to make significant force structure cuts given the overall defense manpower reductions in FY 1990. Cuts in future operations and maintenance accounts will certainly reduce the training tempo, flying hour program, base support, BMAR growth and most certainly will increase depot maintenance backlog for the

Army. Procurement cuts in such programs as the M1A1 or AH64 and other high dollar systems will require adjustments in the annual buys (production rates) which will increase the unit cost of production. The most significant impact this action will have on the Army's modernization programs will be the delayed fielding of new weapon systems. The future impact of the spending cuts in these programs is that the Army's warfighting capability and potential deterrence value may well be degraded. Additionally, long delays and slippage in the RDTE programs will impact on the development and testing of new weapon systems. The technological edge gained during the 1980's may be eroding with the most recent cuts in this program area. Within the area of military construction, cuts and delays will require scope reduction, redesign and reworking of bids for most construction projects and programs. Many family housing projects along with other critical facility construction could well be eliminated or deferred until later years. Further reductions in the construction programs will have serious impact on the morale and quality of life for our soldiers and their families. Historically, when these type cuts take place, they affect the Army's ability to retain quality soldiers in the force.[14]

Without question, G-R-H has made a significant impact on DoD and Army programs and by so doing have placed combat readiness and modernization programs at great risk for the near future. During the last 8 years, significant readiness gains were achieved, however with the recent budget cuts and projected negative growth in future budgets, gains in critical programs are starting to be stunted and, in some cases, reversed.

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CHAPTER 6

TRENDS

As noted earlier, the Army budget has been steadily declining since FY 1986. While there was some hope that the FY 1991 budget would have some real growth over the FY 1990 budget, it has become obvious with recent events in Eastern Europe, the recent debates over the FY 1990 budget, and the G-R-H deficit ceilings, that real defense budget growth will not be a viable budget alternative in the foreseeable future. In fact, some planners anticipating this trend within the Defense Department have been working on force structure options that would significantly reduce the manning levels in the services by 1994.[1] Recognizing the need to change strategy and redirect the Defense Department's budget direction, Secretary Cheney directed the services to plan for 180 billion dollars less than was projected for FY 1992 through 1994. The White House, also recognizing the need to make additional spending cuts, put a 292 billion dollar cap on defense spending authority for FY 1991. This cap provides the Defense Department 5 billion dollars less than they wanted for the next fiscal year and, if approved, it will be 1.5 billion dollars less than what was received in FY 1990.[2]

The Vice Chairman of the Joint Chiefs of Staff, Gen. R.T. Herres, in recent remarks to Senator Glenn stated that defense is "looking at some big cuts" this next year.[3] Senator Glenn followed in a statement predicting that "there is no doubt at all that there will be a cut in the defense budget, with significant equipment and manpower reductions [to be made] over the next several years."[4] Facing the realities of smaller budgets, the services have been working to prepare plans that will accommodate expected budget cuts.[5]

With the President's budget soon to be presented to Congress, both Congress and the President must [illegible] the budget review process without a budget agreement like the [illegible] that existed for the FY 1990 budget. The lack of a budget agreement along with public pressure on Congress to use the defense budget to help reduce the budget deficit and meet the G-R-H deficit ceiling will force tough choices by Congress to determine which defense and non-defense programs are to be cut.[6] Whatever the outcome on budget decisions "the public wants to see a reaction to changes in Eastern Europe by a reduction in the defense budget."[7]

Trends in the Army budget from 1985 to present will

likely be accelerated to meet the demands of Congress, satisfy G-R-H requirements and accommodate the changing missions of the Army today. Senator Jim Sasser (D-Tn), Senate Budget Committee Chairman, indicated "the defense budget will get close scrutiny as lawmakers begin to draw up an overall federal spending plan in early 1990." He anticipates most lawmakers will ask the question, " How quickly can military spending be cut?"[8] With this in mind, along with the current Army budget trends, an assessment of future congressional budget action can be made to help project what the Army budget will be in the future. Current Army budget trends to be considered in this assessment include: Army funding as a percent of GNP has decreased from 1.8 percent in 1985 to 1.4 percent in FY 1990; Military personnel costs have remained almost constant in real terms, but the portion that is allocated to military personnel has increased from 35 percent to 38 percent in FY 1990; Operations and maintenance costs have steadily increased ranging from 30 percent in FY 1985 to 35 percent in FY 1990; and last, research, development and acquisition showed a significant decline from 31.2 percent to over 24 percent for FY 1990.[9]

These budget trends will not likely reverse themselves

during the 1990's considering the G-R-H mandates and Congress' desire "to support a much needed restructuring of the U.S. economy."[10] The Bush administration has forecasted that the Army budget will be reduced by 50 billion dollars over the next five years. This budget cut, coupled with a diminishing Soviet and Warsaw Pact threat, could result in a negative two percent real growth over the next five year period. House Armed Services Committee Chairman Les Aspin (D-WI) "said 1990 saw the last of the deficit-driven defense budgets and 1991 should see the first of the Gorbachev-driven defense budgets."[11] He warned the Army that a viable strategy for the 1990's was absolutely essential if the Army was to remain competitive with the other services in getting its fair share of scarce budget resources.

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CHAPTER 7

POSTSCRIPT

Budget reductions as a result of G-R-H have had marginal success in cutting some domestic programs and reversing the growth of the defense budget. Despite these reductions, it will be very difficult for Congress to achieve a balanced budget by FY 1993.[1] The combination of increased revenue and reduced spending must continue to be incorporated into our national budget process if this goal of zero deficit is to be achieved.[2] A study of the federal budget clearly indicates Congress' failure to demonstrate the necessary restraints in spending legislation to accomplish this difficult task. A lack of definitive budget controls and the disintegration of an ethos that supports limited government and balanced budgets have been major contributors to Congress' budget failures.[3]

G-R-H as a budget reduction tool has helped distort the legislative process by taking congressional energy that "should have been directed to public policy issues, and given it over to creating accounting gimmicks, and highly technical silliness to get around the G-R-H targets."[4] On the other hand, G-R-H has aided in Congress' efforts to dampen the

growth of the federal deficit by creating a climate that has focused the attention of the public and lawmakers on critical budget issues. The law remains, regardless of how successful it is because there is no better alternative for Congress and the President to reduce the budget deficit. House Budget Committee Chairman Leon E. Panetta (D-Calif) concedes that G-R-H "is the only thing [Congress] has right now" to attack the budget deficit issue. Senator Rudman echoed this assessment by asserting that G-R-H was the only conceivable way Congress could have managed cutting the deficit.[5]

Despite the marginal successes in budget reductions, deficits remain far above the target ceilings which will continue to challenge Congress in its efforts to zero out the deficit in the 1990's. As of October 1, 1989, the United States Treasury says the deficit was 152.1 billion dollars. Compared to FY 1988, the 1989 deficit shrank by 3.1 billion dollars. As a percentage of the gross national product, the deficit has come down from a high of 5.7 percent in 1986 to 2.9 percent in 1989. However, the cumulative debt still continues to grow and on November 7, Congress had to raise the borrowing limit to 3.123 trillion dollars. This was the third time in this decade that the debt ceiling had to be

raised which is indicative of our current fiscal ills.[6]

The law requires the FY 1991 budget be reduced by 36 billion dollars to reach a deficit ceiling of 64 billion dollars. As difficult as it was to reduce the FY 1990 budget to the 100 billion dollar deficit ceiling level, ·ll be even more difficult to achieve the next round of budget reductions. Because the prevailing view of Congress is that the deficit overarches most other national priorities, it seems only logical that defense spending will continue to be the primary target for congressmen so they can achieve the desired spending cuts to reduce the deficit.[7] The law operating in this climate will naturally continue to tighten its grip on spending which will cause the defense budget to remain at depressed levels (zero or negative growth) for the immediate future.[8]

Although deficit reduction is a high priority, the public and Congress must not lose sight of the fact that the right kind and amount of national defense is still the number one responsibility of the national government. Lawmakers are looking at defense as a billpayer and believe an agency as big as the Defense Department can absorb major budget cuts. The

danger of this outlook is that lawmakers may become blind to the realities of our national defense needs. To be a credible and effective world power, the United States needs a ready military that can respond to contingencies and unexpected emergencies. Since military leaders are currently being pressed with the requirement to rethink their military requirements, the Defense Department will need to insure the services clearly articulate their needs and make critical distinctions of requirements between foreign policy, security commitments, threat assessments, military strategy, force structure and defense budget.[9] As history has proven again and again, unexpected world events can and will disrupt future plans and strategy. Our preparedness must not be based on stated intentions and good will but on potential enemy capabilities.[10]

The rapidly changing political events in Eastern Europe have reduced tensions between the United States and the Soviet Union. These new developments have made the likelihood of an all out conflict lower than its been at just about any time since the end of World War II. The perceived reduction in threat has also accelerated Congress' expectation to cut the defense budget and possibly reap a so called "peace dividend."

On the other hand, the administration has made clear its design to direct any savings of military expenditures "toward the federal deficit, a problem of critical importance which the administration and Congress largely covered up this year."[11] Rep. Roukema and a few other congressmen also believe it would be fiscally prudent to apply all savings to deficit reduction as a first priority.[12]

The administration is currently proceeding with a plan to cut defense expenditures by 180 billion dollars from 1992 to 1994. These cuts according to Secretary Cheney are needed to redress the budget deficit and to respond to the changes in Eastern Europe and Soviet Union. The proposals for these spending cuts have lacked an adequate explanation for the reductions proposed. In fact, they have made little reference to strategy or threat when clarifying the reasons for making the spending cut decisions. It has become very evident "that despite the historic turn of events in 1989, the strongest force behind defense budget cuts is the G-R-H deficit reduction requirement.[13] Changing the Army's posture to fit peacetime military requirements will be no easy task. The variety and magnitude of the cuts to accommodate this new posture will be great. The transition of the Army to a

smaller, more deployable force will require detailed planning and well managed plans and programs.[14]

The Army's plan to accommodate the forecasted budget cuts is to transform itself into a light, more mobile force that can be used as a strategic force for the future.[15] The reshaping of the Army will emphasize contingency forces that will be capable of countering threats such as terrorism, conflicts in the third world countries and policing actions along the Pacific rim.[16] A recent TRADOC report, "The U.S. Army: A Strategic Force for the 1990s and Beyond," proposes a new Army doctrine that calls for a smaller force stationed in the continental U.S. which can be deployed world wide to meet the international realities and threats in the future.[17] However, to accomplish this systematic reshaping of the Army will require a deliberate, measured plan that is properly resourced to minimize the impact these changes could have on the quality of the force, readiness and capability of the Army.[18] Historically, the Army's approach to force redesign and budget cuts has been to blend force cutbacks, program deferrals, minor weapons cancellations and some production rate adjustments. This approach avoids sacrifices and requires few trade-offs among costly weapon systems. This way

of thinking will have to change and adapt to the current trend for the Army to remain competitive in the budget process under G-R-H while also working to secure its position as a major player in our military strategy for the 1990s.

1990 is an election year which will create unique pressures for congressmen seeking reelection. If you take into account budget deficits, arms control negotiations, domestic and international issues, congressional debates, individual positions on critical issues will become more partisan as the two political parties square off and jockey for political advantage.[19] Senator Nunn has cautioned legislators "not to confuse the need to meet deficit reduction targets with the need to evaluate the military's role in preserving the peace in Europe as it shapes the FY 1991 defense budget.[20] Senator Glenn recently conceded that few congressmen are taking a rational approach to defense budget cuts. He feels there will be a pell-mell assault on the 1991 defense budget.[21] This approach could undermine an orderly military transition to a peace time posture and also create unnecessary risks to our national security. The attitude currently held by many congressmen is that "it would be folly to spend more than we need for defense.[22] Defining that need

based on a quality assessment of the threat is what is required if the military is to optimally manage its resources in creating a viable force structure envisioned by our nation's leaders.

The final chapter on G-R-H and how it will continue to affect the defense budget has not yet been written. Up till now, however, it is fair to say that G-R-H has indeed played a significant role in the defense budget process. Whether it will continue to play an influential role and push for declines in defense spending remains to be seen. Whether or not G-R-H is effective in reducing the federal budget deficit, it more than likely will continue to be a major factor in the defense budget process.

ENDNOTES

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CHAPTER 8

CONCLUSIONS

Several conclusions can be drawn from the review of the G-R-H Law. First, G-R-H is one of the major pieces of legislation affecting our government today. It has not functioned perfectly but it has represented a continuing commitment to deficit reduction. G-R-H reflects the concern of our nation over the need to achieve a balanced budget. Second, the impact of these budget efforts on the Army will take an added significance as we continue to operate in a period of zero or negative budget growth. Until the balanced budget goal is achieved, the Army can continue to expect force structure cuts, potential degradation in readiness, delay in modernization and shrinking unprotected programs. Third, with all this budget turbulence we must keep in mind that the G-R-H Law is a statement of the nation's will and determination to confront one of the most serious problems facing our country - - the federal budget deficit.[1]

The U.S. Army is facing the challenges of a declining budget and limited available resources and therefore must reassess its role in the context of a new overall national

military strategy. Missions and force structure will have to be balanced in accordance with the changing threats we see evolving in today's world. The Army's role in maintaining peace today is dramatically changing. Forward defense will no longer be a driving factor in developing mission requirements and determining the size and composition of the Army's force structure. The Army's changing missions will ultimately drive a force structure that requires a limited force presence in Europe along with a strong, mobile strategically deployable contingency force capable of reacting to crisis throughout the world. Because of these changes a reassessment of the Army's warfighting doctrine needs to occur which will drive major changes in the Army's modernization programs. The reality of G-R-H along with a declining budget and changing missions will certainly affect the priorities and programs the Army establishes for itself.

Army leaders and planners can no longer hang their hat on the paradigms of the past. New innovative concepts and thinking must be instituted if the Army is to control its own destiny and gain its fair share of the available resources in the future. The question has to be asked, - - can the Army make these dramatic changes and meet the new challenges? If

we do - - can we afford the change that will be driven by new doctrine, modified modernization programs and new force designs?

G-R-H must not be allowed to drive the Army to an end state that does not meet its overall goals and objectives. The Army leadership must accept G-R-H as a statement of changing national priorities and programs. G-R-H is a tool used to help accomplish fiscal policy and objectives and not a mechanism used to develop defense strategy, doctrine and programs. In order for the Army to accommodate evolving and radical budget decisions it must be willing to change its traditional way of thinking.

Before we dismantle our weapon programs and redirect defense funds into the economy as part of a "peace-dividend" and G-R-H savings, the Army leadership needs to make it clear to the Congress "that a land war in Europe with the Warsaw Pact countries was only one of many military contingencies" the Army had to be prepared to execute.[2] The Middle East, Latin America, Africa, S.W. Asia and Asia are all potential hot spots. Any one of these areas could erupt at anytime demanding our involvement tc reestablish stability and peace.

The Army has played a significant role in helping to maintain world order and peace. The price of peace and survival has been our nation's military preparedness. G-R-H does not consider this when making across the board budget reductions. "The parochial self-interest of competing states and districts often determine how and where the budget cuts will be made."[3] Current decision trends show the Defense Department's tendency to take the path of least resistance and spread the budget cuts equally across the services. The Army in turn is also demonstrating a similar tendency by trying to save division flags as opposed to looking at restructuring the Army to meet the missions and requirements of the future. The end state is not visualized by the leadership and therefore no strategy seems to have been followed in making recent budget and force structure decisions. Former Secretary of Defense Harold Brown said "If you don't have a strategy . . . and try to make deep cuts you can wind up with nothing and still spend almost as much money."[4] "We have interest in the world that is going to require a higher level of readiness than we have ever had."[5] The pressure to change and make deep cuts because of political pressure and the G-R-H Law will have to be countered by a well thought out strategy that reflects the time and realities of the world and meets these challenges

with minimal risk to our national security.

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APPENDIX I

FISCAL AND BUDGET LEGISLATION HISTORY

1917--The Second Liberty Bond Act placed a ceiling on the national debt.

1921--Congress passed the Budget and Accounting Act requiring the President to annually submit his budget recommendations to Congress. The Act established procedures for incorporating estimated revenues and expenditures. The General Accounting Office was also established.

1929--President Coolidge was the last President to experience a net surplus in the federal budget.

1930--The federal debt became $16 billion.

1935--The first balanced budget constitutional amendment was introduced in Congress.

1939--President Roosevelt's massive spending programs under the New Deal drove the debt up to a level of nearly $50 billion.

1946--Expenditures to support the U.S. effort in World War II forced the federal debt to $271 billion. Controversies arose over the role of government spending. Many believed that federal fiscal policies should be used to guarantee full employment by increasing the purchasing power of consumers. Others contended that this approach would be inflationary and rob citizens of the value of their money.

1961--The national debt was $300 billion, with revenues and expenditures nearly matched.

1969--The U.S. involvement in Vietnam accelerated deficit spending. By the end of the fiscal year, the national debt had reached $357 billion.

1970--The Office of Management and Budget (OMB), formerly the Bureau of the Budget, was established.

1974--The Congressional Budget and Impoundment Control Act was passed. The Act's stated purpose was "to provide Congress with the procedures, analytical capabilities, and the authority to make the federal budget a more useful tool of national economic policy."

The Congressional Budget Office (CBO) was also established.

1975--The U.S. public debt stood at $577 billion.

1982--The Senate passed a balanced budget amendment proposal by a vote of 69-31, the first time such a measure was approved by Congress.

1985--Congress passed the Balanced Budget and Emergency Deficit Control Act, commonly referred to as the Gramm-Rudman-Hollings Act. The Act established deficit targets for Fiscal Years 1986-1991 and established emergency procedures for deficit reduction.

1986--The Supreme Court invalidated the automatic trigger for sequestration of the Gramm-Rudman-Hollings Act. The Omnibus Budget Reconciliation Act exempted many indexed retirement and disability programs subject to sequestration under Gramm-Rudman-Hollings.

The Senate came within one vote of the two-thirds majority required to pass a balance budget amendment, voting 66-34 in favor.

1987--Congress passed the Balanced Budget and Emergency Deficit Control Reaffirmation Act. This Act amended the Gramm-Rudman-Hollings Act to extend deficit targets through FY 1993, and to restore the automatic trigger for sequestration.

President Reagan signed into law H.J.Res. 324, a measure to increase the public debt limit. The resolution included amendments to the Balanced Budget Act of 1985. The federal deficit declined from $221 to $150 billion.

In November, Congress reached an agreement with the Reagan Administration on the budget, setting forth certain spending caps for FY1988 and 1989. The Bipartisan Budget Agreement divided spending into several categories: international, domestic, national defense, and entitlement and other mandatory programs. Spending for entitlement and other mandatory programs was to be determined primarily by the number of individuals and businesses meeting eligibility

criteria.

H.J. Res. 321, to provide for a balanced budget constitutional amendment, was referred to the House Committee on the Judiciary. Hearings were held.

1988--The Senate Committee on Government Affairs reported S.2478 to establish a biennial budget process. For the first time since 1975, Congress cleared all regular appropriations bills by the beginning of the fiscal year. In October, OMB projected a deficit of $145 billion.

1989--President Bush proposed a $1.15 trillion federal budget for FY 1990.

APPENDIX II

BUDGET REDUCTION TIMETABLE

NOTE	EVENT	DATE
[1]	Date from which net deficit reduction is measured	January 1
[1]	CBO issues annual report to Budget Committee	February 15
[1]	Committees submit views and estimates to Budget Committees	February 25
[1]	Congress completes budget resolution	April 15
[1]	Congress completes reconciliation	June 15
[1]	House completes action on annual appropriations bills	June 30
[1]	Presidential Notification to Congress on Military Personnel Exemption	August 15
[1]	Initial OMB/CBO Snapshot	August 15
[1]	CBO issues initial report to OMB/ Congress	August 20
[1]	OMB issues initial report to President/ Congress	August 25
[2]	President issues initial order	August 25
[2]	President transmits detailed message regarding initial order to Congress	15 days after order
[1]	CBO issues revised report to OMB/ Congress	October 10

[1]	OMB issues revised report to President/ Congress	October 15
[2]	President issues final order	October 15
[2/3]	Presidential notification of modifications or reductions for defense programs	October 15-20
[2]	President transmits message on final order to Congress	15 days after Order
[2]	Comptroller General issue Compliance Report	November 15

NOTES: [1] These events will occur with or without a sequester.

[2] These events will occur only if there is a sequester.

[3] Alternative must be at OMB at least two days before deadline.

[4] G-R-H provisions do not apply in wartime and the provisions can be temporarily suspended in the event of a declared recession. A critical point of law is that the deficit ceilings in subsequent years would have to be met.

APPENDIX III

GLOSSARY

Appropriation Act. A statute, under the jurisdiction of the House and Senate Appropriations Committees, that generally provides authority for federal agencies to incur obligations and to make payments out of the Treasury for specified purposes.

An appropriation act is the most common means of providing budget authority. Currently there are 13 regular appropriation acts for each fiscal year.

Authorizing Legislation. Legislation enacted by Congress that sets up or continues the operation of a federal program or agency indefinitely or for a specific period of time.

Authorizing legislation may place a cap on the amount of budget authority which can be appropriated for a program or may authorize the appropriation of "such sums as are necessary."

Budget Authority. The authority Congress gives to government agencies, permitting them to enter into obligations which will result in immediate or future outlays, except that budget authority does not include authority to insure the repayment of loans held by another person or government.

Budget Baseline. Projected federal spending, revenue and deficit levels based on the assumption that current policies will continue unchanged for the upcoming fiscal year.

Budget Deficit. The amount by which the government's outlays exceed its revenues for a given fiscal year.

Budget Resolution. A resolution passed by both chambers of Congress setting forth, reaffirming or revising the congressional budget for the U.S. Government for a fiscal year.

A budget resolution is a concurrent resolution of Congress. Concurrent resolutions do not require a presidential signature because they are not laws. Budget resolutions do not need to be laws because they are a legislative device for the Congress to regulate itself as it works on spending and revenue bills.

Continuing Resolution. Appropriations legislation enacted by Congress to provide temporary budget authority for federal agencies to keep them in operation when their regular appropriations bill has not been enacted by the start of the fiscal year.

A continuing resolution is a joint resolution, which has the same legal status as a bill.

Deferral of Budget Authority. An action by the Executive Branch that delays the obligation of budget authority beyond the point it would normally occur. Pursuant to the Congressional Budget and Impoundment Control Act of [illegible] the President must provide advanced notice to the Congress [illegible]y proposed deferrals. A deferral may not extend beyond the end of the fiscal year in which the President's message proposing the deferral is made. Congress may overturn a deferral by passing a law disapproving the deferral.

Entitlements. Programs that are set up in a way that obligates the U.S. Government to make specific payments to qualified recipients.

Excess Deficit. The amount by which the projected baseline deficit for a fiscal year exceeds the maximum deficit amount (deficit target) for that fiscal year. The amount of excess deficit, as estimated by OMB, will be the outlay amount eliminated through the President's sequester order, with some exceptions.

Maximum Deficit Amount. The fixed deficit target for a fiscal year that may not be exceeded by the projected budget deficit for that fiscal year. [This definition applies to FY1990-FY1993 only.]

Net Deficit Reduction. Savings below the defined budget baseline achieved for the upcoming fiscal year because of laws enacted or final regulations promulgated since January 1. CBO and OMB independently estimate these savings in their initial and final sequester reports.

Offsetting Receipts. Income from the public that results from sale of products or services rendered (such as sale of timber from federal lands or entrance fees for national parks). Offsetting receipts are deducted from total budget authority and outlays rather than added to federal revenues even though they are deposited in the Treasury as miscellaneous receipts.

Outlays. Outlays are disbursements by the federal treasury in the form of checks or cash. Outlays flow in part from budget authority granted in prior years and in part from budget authority provided for the year in which the disbursements occur.

Reconciliation Process. A process in which Congress includes in a budget resolution "reconciliation instructions" to specific committees, directing them to report legislation which changes existing laws, usually for the purpose of decreasing spending or increasing revenues by a specified amount by a certain date. The reported legislation is then considered as a single "reconciliation bill."

Revenues. Collections from the public arising from the government's sovereign power to tax. Revenues include individual and corporate income taxes, social insurance taxes (such as Social Security payroll taxes), excise taxes, estate and gift taxes, customs duties and the like.

Sequester. That element of a presidential spending reduction order that occurs by reducing defense and non-defense spending by uniform percentages.

Supplemental Appropriation. An act appropriating funds in addition to those in the 13 regular annual appropriation acts.
Supplemental appropriations provide additional budget authority beyond the original estimates for programs or activities (including new programs authorized after the date of the original appropriation act) in cases were the need for funds is too urgent to be postponed until enactment of the next regular appropriations bill.

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