CBO TESTIMONY

Statement of
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before the
Subcommittee on the
Legislative Process
Committee on Rules
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NOTICE

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Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to offer the views of the Congressional Budget Office (CBO) concerning the budgetary effect of granting the President item veto authority.

The crux of my message is that the item veto would have little effect on total spending and the deficit. I will buttress this conclusion by making three points. First, since the veto would apply only to discretionary spending, its potential usefulness in reducing the deficit or controlling spending is necessarily limited. Second, evidence from studies of the states' use of the item veto indicates that it has not resulted in decreased spending; state governors have instead used it to shift states' spending priorities. Third, a Presidential item veto would probably have little or no effect on overall discretionary spending, but it could substitute Presidential priorities for Congressional ones.

Although the item veto has often been proposed as a constitutional amendment, the statutory alternatives that have been referred to this Committee take on various forms, including enhanced and expedited rescission and separate enrollment of appropriated items. Two of these approaches--enhanced rescission and separate enrollment--would provide the President with the same authority as the item veto. Expedited rescission is more limited in its grant of authority to the President. CBO's analysis of the budgetary effect of the item veto applies to each of these proposals as well.

THE ITEM VETO WOULD AFFECT ONLY DISCRETIONARY APPROPRIATIONS

Proponents of the item veto often tout it as a tool that could offer substantial assistance in reducing federal spending and the budget deficit. CBO believes that reducing the deficit is the most important action that the Congress and the President could take to increase long-term productivity and growth. But the potential for the line item veto to decrease spending or the deficit is quite limited because the largest and fastest-growing portion of the federal budget consists of mandatory spending.

This point can be illustrated by looking at the budget for fiscal year 1993. The outlay caps for discretionary spending, which were created by the Budget Enforcement Act (BEA), total $543 billion. Mandatory spending, including interest on the national debt, is projected to be $950 billion. Discretionary spending, which is the only portion of the budget that would be subject to the item veto, therefore represents less than 40 percent of total projected spending in fiscal year 1993. The projected deficit for that year is $331 billion, or approximately 60 percent of total discretionary spending. By 1997, discretionary spending in the CBO baseline falls to less than 33 percent of total spending.

Further, the item veto would apply to the area of the budget that is, comparatively speaking, under control. Discretionary spending has grown far slower than mandatory spending, a trend that is expected to continue under current policies. Mandatory spending is estimated to have increased by an average of 8.8 percent a year between fiscal years 1987 and 1992, compared with 4 percent a year for discretionary spending.

In inflation-adjusted terms, mandatory spending will have grown by 4.2 percent over the same period, but discretionary spending will have fallen. The increase in mandatory spending has been particularly pronounced for the Medicare and Medicaid programs, fueled by the rapid rise in health care costs. CBO estimates that mandatory spending will continue to grow much more rapidly than inflation into the next century. The CBO baseline assumes that discretionary spending will increase at less than the inflation rate through 1995 and at the inflation rate after 1995.

STATE ITEM VETOES HAVE NOT BEEN USED TO HOLD DOWN STATE SPENDING

Supporters of the item veto also point to the use of this tool in the states as evidence of its effectiveness. Governors in 43 states have the power to

remove or reduce particular items that are enacted by state legislatures.[1] The evidence from studies of the use of the item veto by the states, however, indicates no support for the assertion that it has been used to reduce state spending.

Researchers have reviewed the impact of state item vetoes through case studies of individual states, through surveys of multiple states, and through the use of statistical techniques. A study of the use of the item veto in Wisconsin over a 12-year period found that governors were likely to use the authority to pursue their own policy or political goals but not to reduce spending.[2] Similarly, a survey of state legislative budget officers in 45 states found that governors were likely to use the item veto for partisan purposes (Democratic governors vetoing projects added by Republican legislators, for example) but were unlikely to use the veto as an instrument of fiscal restraint.[3] Finally, several researchers have used statistical models to test the

1. See House Committee on Rules, *Item Veto: State Experience and Its Application to the Federal Situation* (December 1986).

2. James Gosling, "Wisconsin Item Veto Lessons," *Public Administration Review*, vol. 46 (1986), pp. 292-300.

3. Glenn Abney and Thomas Lauth, "The Line Item Veto in the States: An Instrument for Fiscal Restraint or an Instrument for Partisanship?" *Public Administration Review*, vol. 45 (1985), pp. 372-377.

effect of the item veto and have generally found no support for the contention that the veto reduces state spending in those states where it is applied.[4]

The evidence from these various types of studies is clear. Although the item veto may have an effect on the budget, that effect is much more likely to be to substitute the governor's priorities for those of the legislature than to reduce spending.

THE ITEM VETO IS UNLIKELY TO REDUCE DISCRETIONARY SPENDING

The item veto has limited potential to reduce even the discretionary portion of the budget. In a regime where prior spending limits have been agreed to, spending reductions below those caps are unlikely. Even if such limits are not in place, only Presidents who value reducing spending over pursuing their own spending priorities are likely to use the item veto for deficit reduction.

4. See, for example, David C. Nice, "The Item Veto and Expenditure Restraint," *Journal of Politics*, vol. 50, no. 2 (1988), pp. 487-499; and Douglas Holtz-Eakin, "The Line Item Veto and Public Sector Budgets: Evidence from the States," *Journal of Public Economics*, vol. 36 (1988), pp. 269-292. For a study that reaches a different conclusion, but has significant methodological problems, see W. Mark Crain and James C. Miller III, "Budget Process and Spending Growth," *William and Mary Law Review*, vol. 31, no. 4 (1990), pp. 1021-1046.

To the extent that discretionary spending plays a role in future deficit reduction, the cuts are likely to be implemented by devices such as the BEA's caps on budget authority. The BEA freezes total discretionary outlays at roughly $540 billion through 1995, which translates into moderate shrinkage of these programs in real terms. Neither the President nor the Congress has shown great willingness to cut discretionary spending by a larger amount than the BEA requires. The single exception has been in the defense area, where rapid changes in the world contributed to reductions in the 1993 budget resolution of $11 billion below the allowable cap. The caps represent a statutory agreement between the President and the Congress on the level of discretionary spending. The item veto is not a substitute for such an agreement and is unlikely to lead to additional reductions in a regime where spending is capped.

A different situation may present itself where no prior agreement exists on the level of discretionary spending. In this case, although it cannot be a major instrument for reducing the deficit, the item veto might affect the level of total discretionary spending. The item veto, however, would not necessarily lead to a smaller deficit through reducing discretionary spending. It would give the President bargaining power to use with the Congress, but whether that arrangement leads to a decrease in spending depends on the degree to which the President supports reduced deficits rather than increased spending.

If the President placed a top priority on reducing spending or the deficit or both, item veto authority could help in two ways. The first is obvious. Discretionary appropriations could be reduced without causing anything to be added to the budget, thus reducing the deficit. The potential deficit effect of these vetoes, however, would likely be quite small. In addition, however, the President could use the threat of the item veto to bargain with the Congress, encouraging it to adopt a broad package of deficit reductions in exchange for a pledge not to veto appropriations the Congress or individual Members support.

If the President did not give top priority to deficit reduction, the situation would be much different. Recent history suggests that even Presidents who support reductions in one area of discretionary spending may strongly favor increases in other areas. In that case, the President would be unlikely to apply the veto in areas where he supported increased spending. He could also use the threat of a line item veto to force Members of Congress to enact the appropriations that he supported, in addition to those that they favored. That could lead to an increase in total discretionary spending, rather than a decrease.

Under any scenario, the item veto would probably foster the substitution of some Presidential budget priorities for Congressional ones.

Some analysts would argue that this is sufficient reason to adopt the item veto if the President is more likely to support spending that is in the national interest and less likely to engage in locally oriented--so-called pork-barrel--spending. Since pork-barrel spending has no clear definition, this argument is difficult to evaluate. The President is in the unique position of taking a national perspective. In practice, however, all spending distributes benefits disproportionately, and Presidentially chosen spending is not obviously more in the general interest than are Congressionally supported appropriations.

CONCLUSION

Debates about whether to adopt the item veto will undoubtedly focus on issues besides the veto's effect on spending. These issues include the effects that granting the President this power are likely to have on the separation of powers and the relationship between the two branches of government. Adopting the item veto because of its budgetary effect, however, may not be warranted. The strongest case for the reform relies on a belief that Presidents can identify projects with purely local benefits and are willing to act against them without substituting their own local-benefit projects. The extent to which this belief is true is highly dependent on the priorities of an individual President. Simply put, the item veto is a tool for fiscal restraint only in the

hands of Presidents who place a top priority on reducing spending and the deficit. But its contribution would be necessarily limited, and other mechanisms are available to a President who wishes to pursue these objectives.