Insight

The CR: Looking at Policy, Not Politics

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The House wrapped up deliberations on the FY2011 Continuing Resolution (CR) this past Saturday, cutting a reported $61 billion in spending from current federal levels. Much has been said on the politics of the CR, so allow me to focus on three points that are important from a policy perspective:

- The CR supports responsible federal management,
- The CR is *not* a spending cut of $61 billion, and
- The purported macroeconomic impacts are poorly understood.

The CR supports responsible federal management. Nearly every voter wishes that the federal government were run in a more efficient and responsible fashion. It is easy to blame "bureaucrats," but the reality is that much of the problem resides with a Congress that does not fund programs in a timely fashion, micromanages their operation for political purposes, and does too little real oversight of programs' effectiveness.

In this light, it is refreshing to see the House CR (a) completed in a timely fashion and (b) extending for the full remainder of 2011. It is now the responsibility of Democrats in the Senate and the White House to move with enough alacrity to avoid the ultimate management failure: an unfunded federal government. It is disheartening to see that Majority Leader Reid places this so low among his priorities that he is permitting the Senate to recess for a full week while the clock ticks toward March 4. It would be desirable for the White House to pressure the Senate to get to work.

There had been talk that the House would pursue a series of short-term (e.g., two-week) CRs instead of a full-year CR. There could be no greater management nightmare than the inability to plan for more than two weeks at a time. Let us hope that Democrats do not follow the lead of House Minority Leader Pelosi and adopt a kick-the-can-not-very-far-down-the-road strategy that serves the agencies and voters so poorly.

The CR is *not* a spending cut of $61 billion. The appropriations process controls *budget authority*, not actual *outlays* or spending. Think of budget authority as deposits into a checking account and outlays as the checks the federal government writes. Cutting the deposits *ultimately*reduces federal spending, but not right away. On average, a cut of $1 in budget authority will translate into only 52 cents of spending reduction right away. So the likely cut is at best about $32 billion in spending.

On top of that, some of the cuts rescind unspent balances — the moral equivalent of pulling money out of the checking account to eliminate the ability to spend. While this *does* eliminate $1 of potential spending at some point in the future, it is a far cry from direct elimination of $1 of ongoing programmatic support.

In sum, trimming $61 billion is a small step in the right direction; attempts to characterize it as draconian cuts to ongoing agency activity is exaggeration.

The purported macroeconomic impacts are poorly understood. Treasury Secretary Geithner was quoted as saying the CR would "undermine and damage our capacity to create jobs and expand the economy." Presumably this stems from the administration's rigid Keynesian ideology.

Let's take that at face value for the moment. In the fourth quarter of 2010, GDP was $1.5 trillion, so $32 billion in spending is 0.2 percent of GDP. This is a mere rounding error in the national accounts and a tiny impact on aggregate demand at the outside. Moreover, not all of the reductions will be in government purchases of goods and services, i.e., those outlays that actually count toward GDP. Instead, many if not most will be transfer payments that have a muted impact of near-term growth.

Far from being either a mistake or a muted misstep, this is exactly the right strategy. As outlined in Ike Brannon's paper at the American Action Forum, the right strategy to balance the budget *and*grow strongly is to keep taxes low and reduce public-employee costs and transfer payments.

The bottom line. The politics of the CR overwhelmed coverage of the substance. Each of the individual cuts should be examined on its merits, but the overall strategy of finishing early, funding the full year, and cutting spending provides leadership in solving the nation's pressing need for jobs, growth, and reduced debt. Now comes the real test: When will Democrats in the Senate and White House step up?

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