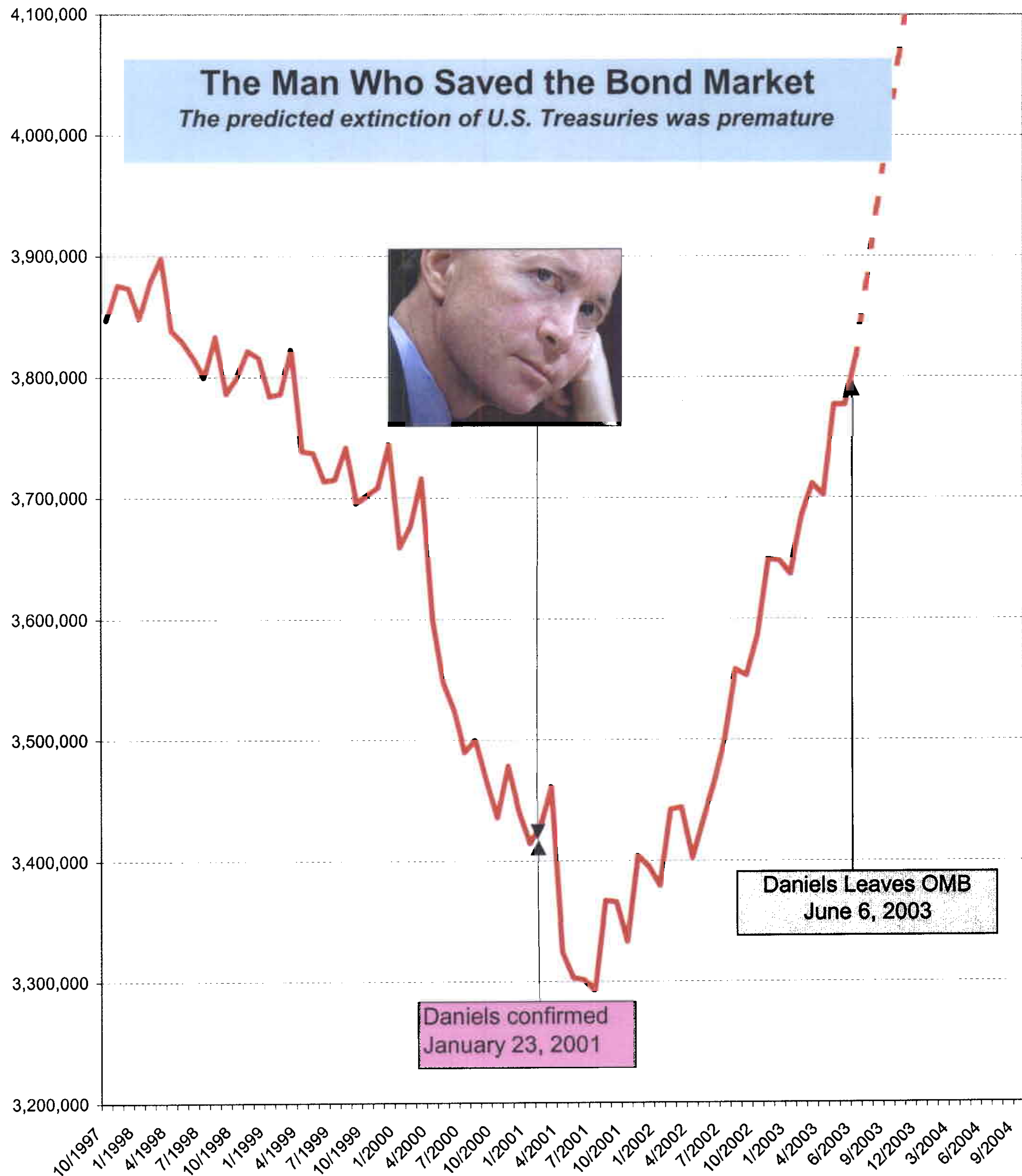
Performance Based Budget Director Evaluation: *Volume II*



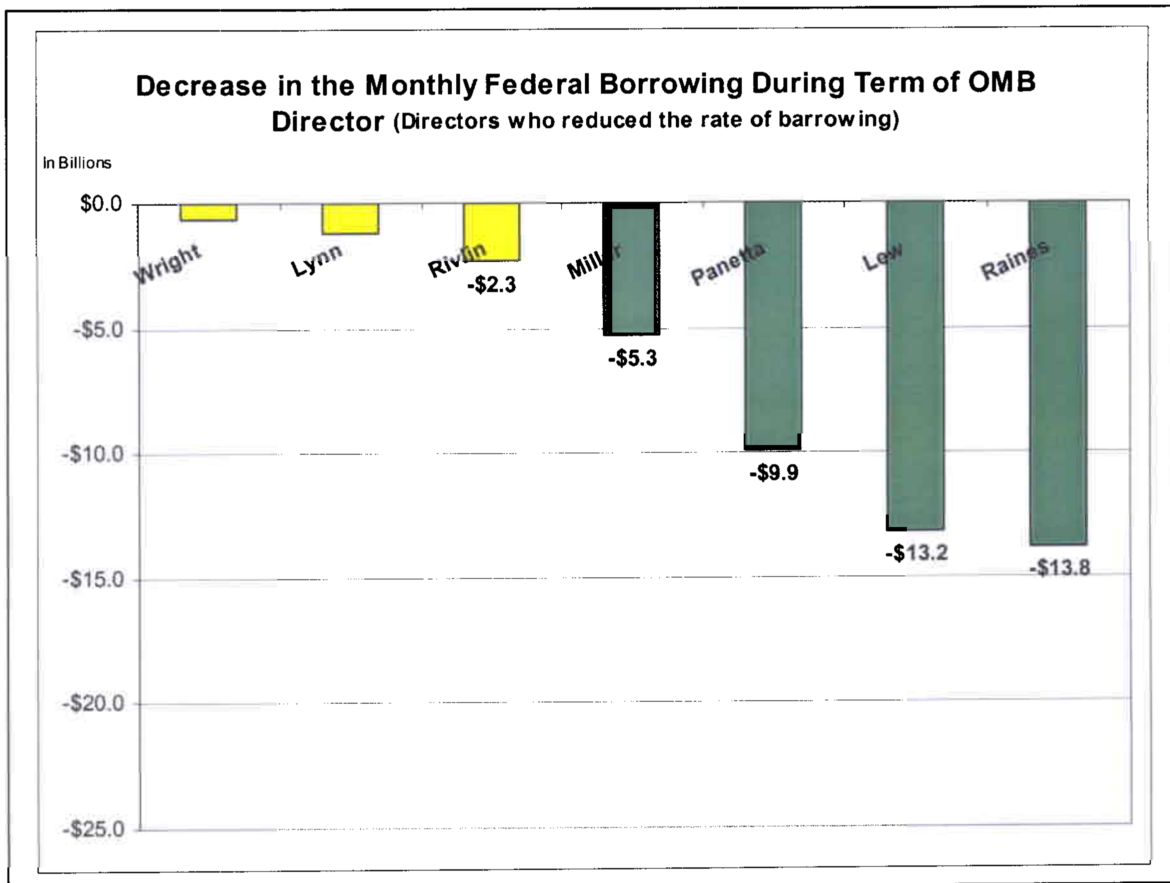
Prepared by the Minority Staff
House Appropriations Committee

HOW OMB DIRECTORS RANK BASED ON THEIR PERFORMANCE IN CONTROLLING THE PUBLIC DEBT

This Report updates a report issued over one year ago entitled, *Performance Based Budget Director Evaluation.* It also provides a discussion as to why the performance of the current budget director so dramatically lags behind his 12 predecessors in the efforts to control the public debt. In addition, it evaluates the current budget director in terms of whether or not sufficient resources have been made available to certain key government functions, such as protecting the American people from terrorist attack, improving our schools and protecting our environment.

The basic criteria for comparing the performance of the 13 individuals who have served as directors of the Office of Management and Budget over the past 30 years is simple but we believe sound in terms measuring what the vast majority of Americans would expect from an individual charged with overseeing the nation's budget policies.

Using the data provided by the U.S. Treasury Department's Bureau of the Public Debt, we measured the rate at which the pubic debt was growing or declining when the director took office and compared that with the rate at which the public debt was growing or contracting when he or she left office. Directors that slowed the growth of the debt or reduced debt were rated as

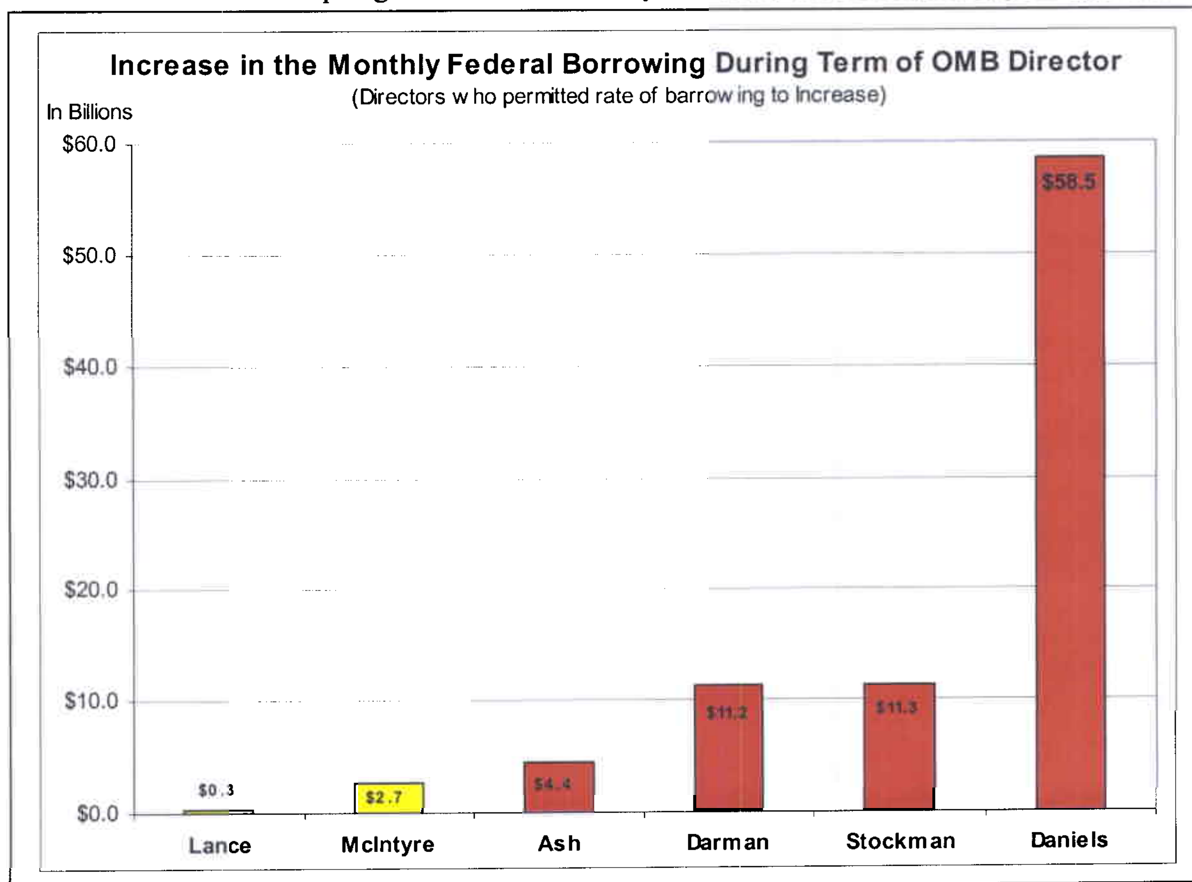


having done a good job. Those who left office with debt expanding more rapidly than when they had taken over were rated as performing poorly. Mr. Bolton, who was confirmed only two weeks ago, is not included in this analysis.

Using the "simple traffic light grading system" that was introduced by the current director of the Office of Management and Budget last year for the purpose of evaluating federal agencies we have applied the color green to directors who cut the monthly rate of growth of the federal deficit during their tenure by at least $3.0 billion a month. For those directors whose leadership resulted in little change (plus or minus $3 billion a month) in the growth of federal deficits, we applied the color yellow. For those whose leadership coincided with more rapid growth in the public debt (an increase of at least $3 billion a month), we applied the color red.

Last year, Mr. Daniels not only was coded red for his performance, but in fact, finished dead last compared to the performance of his 12 predecessors. In fact, his performance was dramatically worse than the next worse performance.

When Mr. Daniels was confirmed by the Senate in January of 2001, the public debt stood at $3,414,517,000,000. The rate of federal borrowing during the six months before and after he took office the federal government was actually actually negative. The government was paying down the debt at the rate of $18,555,000,000 per month. Based on Mr. Daniels budget projections for fiscal year 2002, we concluded a year ago last

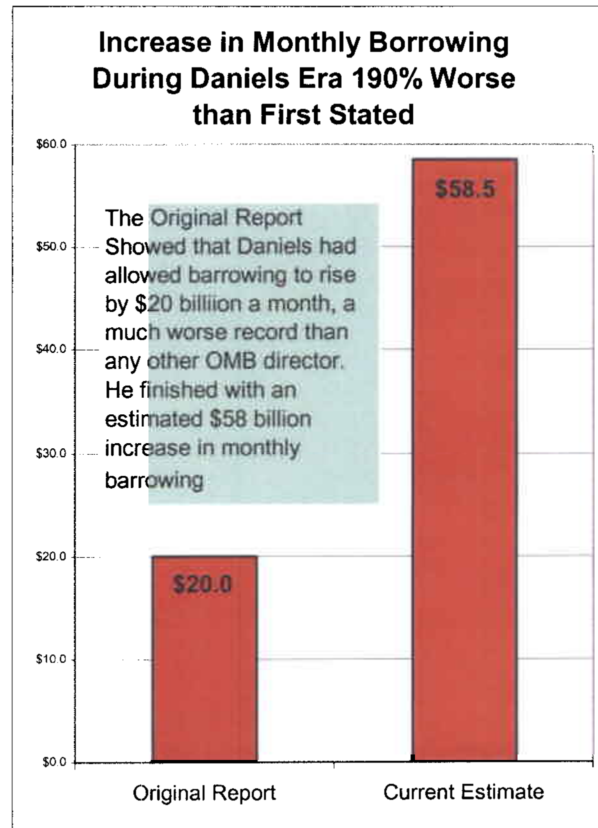


February that the public debt was no longer declining and was, at that time, growing at a rate of $1.67 billion dollars a month. Shifting from an average monthly decline in the debt of $18.6 billion a month to an increase of $1.7 billion per month meant that Mr. Daniels had managed a $20 billion reversal in the direction of the debt during his first year in office.

The next worse performance by a Budget Director was during David Stockman's tenure in which the rate of federal borrowing jumped from $7.3 billion a month to $18.6 billion. Daniels managed to exceed the old $11.3 billion record by nearly 80%.

Remarkably, however, the numbers in the February 2002 report dramatically understated the extent to which Daniels had squashed the previous record. The deterioration that was taking place in the nation's fiscal wellbeing proved to be far worse than the deficit forecast in Daniels fiscal 2003 budget. In fact, the public debt grew by an average of $13.5 billion per month between July 2001 and June 2002. That meant that instead of a $20 billion reversal as reported last year, the real magnitude of the fiscal deterioration during Daniels first year was in excess of $32 billion—nearly three times worse than the Stockman record.

Unfortunately for Mr. Daniels and the country, the story does not stop there. The Treasury Department's Bureau of Public Debt reports that public debt reached $3,816,831,315,563.84 by the end of June 2003. Furthermore, the OMB forecast released on July 15, 2003 indicates that the deficit for the current fiscal year would reach $455 billion and go to $475 billion in fiscal 2004 before



the the costs of the Iraqi occupation are factored in.

These estimates indicate that the average rate of borrowing during the period Daniels left office will be about $40 billion a month. If that is compared to the rate at which the government was borrowing at the time Mr. Daniels was confirmed, ($18.5) we have experienced a fiscal reversal of about $58.5 billion a month.

It is remarkable that only two and a half years ago the financial pages were filled with speculation about the consequence of the government paying off the national debt and the elimination of the U.S. Treasury market. The OMB forecast now indicates that sometime during the month of August the debt held by the public will break through the

all time record level of $3.9 billion set in March of 1997.

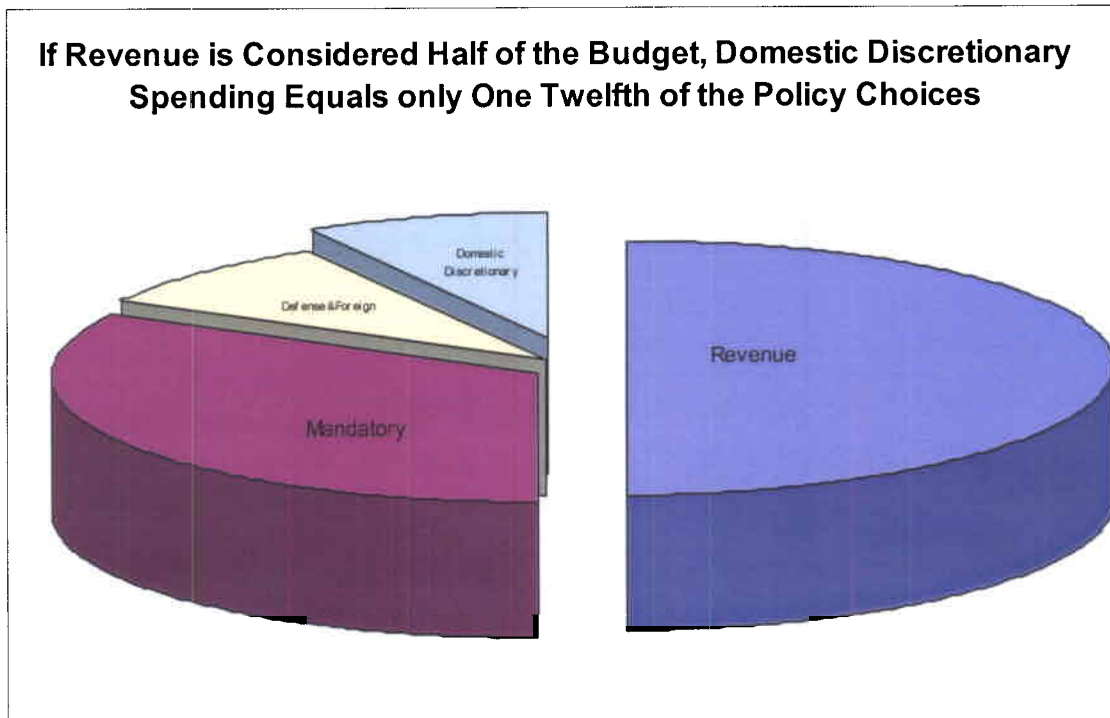
How is it possible that during the twenty nine month tenure of the current budget director the fiscal condition of the nation has deteriorated by a magnitude not only greater than the worst previous record but by an magnitude five times greater than the previous worst record.

We have examined that question and offer the following observations.

Mr. Daniels has attempted to posture himself as a "budget hawk." If, however, he were running a business he would recognize that his hawkishness would have to be applied to both sides of the balance sheet. A CFO who is not as aggressive in maximizing revenues as he is in cutting costs is not going to end up with a strong balance sheet.

Mr. Daniels reports two disturbing events in his Fiscal 2004 budget submission to Congress: *"Revenues declined two years in a row, the first such phenomenon in over 40 years;"* and *"Revenues declined in 2002 by seven percent, the largest percentage decline since 1946."* He then argues, *"As it turned out, the 2001 tax cut was...the right policy."* He concludes that we need to another tax cut further reducing revenues and *"strengthening investor confidence by ending the double taxation of shareholder dividends."*

It would be hard to argue that Mr. Daniels record on the revenue side of the ledger has been a strong one. But his record with respect to spending has been surprisingly weak as well. Of the $2.011 trillion in proposed spending contained in the budget Mr. Daniels submitted in behalf of the White House for fiscal year 2003, 64% or nearly two thirds was made up of mandatory spending and interest.



Mandatory spending grew by $26 billion a year or at an average annual rate of 3% during the Clinton Administration. During the first two years of the Bush Administration it has grown by $64 billion a year at an average rate of 6.5%. Efforts made by Daniels and the Administration to restrain mandatory spending were at best tepid. While no significant cuts in entitlement authority were signed into law, in the first two years the President did sign a new farm bill into law on May 13, 2002 which will result in an estimated $73 billion in additional mandatory spending over 10 years. OMB appeared to be largely asleep at the switch in terms of either recognizing the fiscal implications of the package or lobbying within the White House for greater spending restraint.

The remaining third of spending is made up of the so-called discretionary spending programs. Based on the record of this White House in requesting funds for programs in this category, however, it probably makes sense to divide defense and foreign policy discretionary programs from domestic discretionary programs.

In fiscal year 2003 domestic discretionary programs will amount to less than half of all discretionary spending and about one sixth of total spending.

If we accept that half of any budget is revenue and that spending makes up the other half, it means that virtually all of the budget debate has been focused on only one twelfth of the total policy options, domestic discretionary spending. That portion of the budget is now not large enough to bring the government into balance if it were eliminated entirely.

More importantly, the portion of the budget that was the center on confrontation during the Daniels era is the portion that includes a number of the most critical activities of government in an era when good education has become critical for holding on to good jobs and when improving our law enforcement and the security of our cities and national infrastructure has become central to our ability to cope with the threats that surround us. It is ironic that these critical although not terribly expensive needs have been shortchanged during the Daniels era in the name of budget discipline when it is apparent there was none.

The remarkable budgetary turn around which this nation achieved during the 1990s has been squandered. OMB's own forecast indicates that we will see deficits in excess of half trillion dollars a year.

Interest on the public debt has risen less dramatically than might have otherwise been expected because of the weak economy and the resulting low interest rates. But debt service will rise dramatically in the event of any significant economic recovery and will crowd out other spending priorities and cripple our ability to invest as a nation in education, highways, health care or improving our environment. Bad budgets are serious business.