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## CONGRESSIONAL BUDGETS PASS EARLY TESTS ON DEFICITS AND ECONOMY, BUT QUESTIONS REMAIN

On the whole, the budget plans that the House and Senate approved yesterday pass the twin tests of: (1) beginning to address long-term deficits, or at least not making these deficits worse; and (2) not undermining the fiscal stimulus Congress recently passed.<sup>i</sup> The Senate's adoption, however, of amendments that are intended both to facilitate a further large tax cut for the estates of the nation's wealthiest individuals and to make it less likely that Congress will allow the Bush tax cuts to expire for people at the top of the income scale suggests that significant dangers lie ahead. The adoption of these measures raises questions about Senators' professed concerns about deficits and debt and about whether Congress has the fortitude to begin making hard choices.

### Test #1: How would the budget plans affect the nation's long-term fiscal problem?

- The budgets would somewhat reduce projected deficits. Some critics have charged that the House and Senate budgets would double or triple the national debt, while some supporters have said the budgets would cut the deficit by more than half. Both claims are problematic, for essentially the same reason: both mistakenly assume that the new policies proposed in the budgets are responsible for all of the changes in deficits and debt that would occur during the five-year period the budgets cover. In reality, the *debt* will grow in coming years primarily because of the large deficits that the Obama Administration inherited and the impact of the recession and financial crisis, while *deficits* will decline after the next year or so primarily because the economy is expected to recover.

The best way to understand a budget's impact on the deficit and the debt is to compare it to what deficits and the debt would be if we continued current policies. By that measure, the President's budget would reduce deficits by \$269 billion over the next five years and about \$900 billion over the next ten years.<sup>ii</sup> The House and Senate budgets would reduce deficits by modestly larger amounts than the President's budget over the next five years, provided that Congress strictly adhered to them.

- Both the House and Senate budgets, like the President's budget, commit to health care reform that would be deficit neutral. Since rising costs throughout the U.S. health care system are the single largest cause of projected increases in deficits over the long term, controlling those costs as part of health care reform is essential to putting the nation back on a sustainable fiscal path.
- Many of the same Senators and House members who launched the sharpest verbal attacks this week on the President's budget or the congressional budget plans — on the ground that the deficits and debt projected under those plans are much too high — then

*opposed* a number of the tough choices the President's budget makes to start reducing deficits. Those tough choices include allowing many of the generous tax cuts enacted in 2001 and 2003 to expire for people at the top of the income scale, making the 2009 estates tax rules permanent rather than eliminating still more of that tax, and limiting itemized deductions for families making over \$250,000 to help finance health care reform that is intended to reduce costs over the long term.

Many of these same Senators also pushed — in some cases successfully — proposals that would significantly *worsen* deficits, unless their costs were offset. And many of these Senators have a track record of insisting that the tax cuts they promoted in this week's budget debate *not* be offset.

Of particular note, the Senate narrowly went on record in favor of a large additional cut in the estate tax, which is already shrunken markedly from what it was a decade ago. The President's budget proposes to extend the tax permanently at its 2009 level, with a \$7 million exemption for couples and a top rate of 45 percent; under the Obama proposal, the estates of more than 99.7 percent of Americans who die would be tax free. But, the Senate voted yesterday to shrink the tax further — that is, to eliminate or reduce the tax further for the wealthiest 0.3 percent of Americans, the only ones whose estates would owe *any* estate tax if the 2009 tax rules are made permanent. The Senate estate-tax measure would result in nearly \$100 billion more in revenue losses than the President's proposal over the first decade its effects would be fully felt (2012-2021).

- In addition, the Senate adopted amendments intended to make it harder for Congress to allow the Bush tax cuts to expire on schedule for people at the top of the income scale. One of these measures put the Senate on record as favoring a significant new tax loophole, under which the Bush tax cuts would be made permanent for people at the top of the income spectrum as long as these individuals have a requisite amount of "small business" income. This would invite the highest-income taxpayers and their lawyers to find ways to reclassify their incomes; it could generate a new industry of tax-avoidance schemes. In light of the daunting budget deficits the nation faces, it would be neither fiscally responsible nor equitable to maintain the Bush cuts for the highest-income households — which will average about \$150,000 a year for millionaires starting next year, according to Tax Policy Center estimates — if such households can find ways to exploit a new loophole of this nature.

## **Test #2: Do the budget plans protect the economy in the near term?**

- As funds from the recent economic recovery package begin to enter the economy and boost overall demand, it is important that policymakers not undercut that legislation by instituting funding reductions that reduce the demand for goods and services while the economy is still weak. The President's budget calls for a 3.9 percent increase in total funding for domestic discretionary programs in fiscal year 2010, after accounting for inflation and several unavoidable cost increases for 2010 that are not related to any program expansion, such as the cost of conducting the next census.

This proposed increase follows several years of little or no growth in most domestic discretionary programs; over the past five years this part of the budget has grown 1.1 percent per year after inflation, on average, with much of that increase due to significantly increased

needs in a few specific areas like veterans' health care. (Note: domestic discretionary programs are not a source of the projected deficits over the long term.)

- The House and Senate scaled back the President's proposed real increase in domestic discretionary funding — from 3.9 percent to 3.5 percent in the House, and 1.5 percent in the Senate. Both chambers rejected efforts for significant *cuts* in domestic discretionary spending for the coming year, which would have weakened overall demand at a time when the economy almost certainly will still badly need a boost.

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<sup>i</sup> See Chuck Marr, "Two Key Tests for House and Senate Action on Congressional Budget Resolution," Center on Budget and Policy Priorities, March 31, 2009, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2752>.

<sup>ii</sup> This figure, a CBPP estimate, is derived from alternative budget projections that the Congressional Budget Office issued in February. CBO's *official* budget baseline is a poor measuring stick to use in assessing congressional budget proposals, because under it, CBO is required to make a series of unrealistic assumptions — such as that all of the 2001 and 2003 tax cuts will expire at the end of 2010 and that the alternative minimum tax will explode in size, hitting tens of millions of middle-income families. The estimates provided here are derived from a baseline that also is based on CBO projections but that offers a more accurate representation of current budgetary policy.