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NEW ENFORCEMENT MECHANISM IN SENATE BUDGET PLAN WOULD FAVOR TAX BREAKS AND DISTORT POLICY DEBATES

by James Horney

The budget resolution that was adopted last week by the Senate includes a new enforcement mechanism that would bar even modest increases in mandatory spending in future years. Yet the provision would do nothing to stop future tax cuts, no matter how large. Such a one-sided rule would not establish true fiscal discipline and is not justified by recent budgetary developments. In addition, the proposed rule would distort important policy debates, such as how best to provide health coverage for the uninsured.

New Mechanism Does Not Provide True Fiscal Discipline

The new rule would prohibit Senate consideration of legislation that would have the effect of increasing mandatory spending by $5 billion or more in any of the four 10-year periods from 2015 through 2055.[1] (The budget resolution also requires the Congressional Budget Office to prepare estimates of all Senate-reported mandatory spending legislation that can be used to determine whether the legislation would violate the prohibition. CBO's estimates currently cover only 10 years.) The point of order could be waived only with 60 votes. The rule does not prohibit consideration of legislation that would have the effect of reducing revenues in years after 2015, even if those reductions exceed not just $5 billion but $500 billion or even $5 *trillion* in a 10-year period.

The spending increases that would trigger this point of order ($500 million a year, on average) become increasingly small in future decades. By 2055, the increase would equal only $172 million a year in 2006 dollars. Relative to the size of the economy, the increase that would be prohibited would equal an average of seven ten-thousandths of one percent (0.0007 percent) in the decade of 2046 through 2055. That is less than one penny a year for every $10,000 in national income. It is clear than even modest efforts to deal with significant problems through mandatory programs would run afoul of this point of order.

But tax cuts of any size would be allowed. For instance, making the President's 2001 and 2003 tax cuts permanent would reduce revenues by an estimated $15.1 *trillion* in 2046 through 2055 (including the cost of Alternative Minimum Tax reform). Although these tax cuts would cost 3,000 times more than the $5 billion spending increase that would trigger the new Senate point of order, that point of order would not apply to the tax-cut legislation.

[1] The prohibition applies to increases in spending that would result from changes in policies today, not just to increases in spending that would result from a phased-in policy change first taking effect in years after 2015.

Focus on Mandatory Spending Not Justified By Recent History

The proposed new rule applies to mandatory spending increases but not to tax cuts, even though lagging revenues have contributed far more to the change from surplus in 2000 to deficits today. In 2000, the surplus equaled 2.4 percent of GDP. For 2005, CBO projects the deficit will equal 3.2 percent of GDP (including CBO's estimate of the President's pending supplemental funding request for operations in Iraq and Afghanistan). This is a negative swing in the nation's fiscal position of 5.7 percent of GDP. During this period, revenues declined from 20.9 percent of GDP in 2000 to a projected 16.8 percent of GDP in 2005, a drop of 4.0 percent of GDP. Thus, *71 percent* of the downturn in the fiscal situation since 2000 (some 4.0 percent of the total deterioration of 5.7 percent of GDP) is attributable to the drop in tax revenues.

Moreover, revenues in 2005 will be lower as a share of GDP than in any year in the 1960s, the 1970s, the 1980s, or the 1990s. By contrast, *total* spending is projected to be 20.1 percent of GDP in 2005 (including CBO's estimate of the new funding for Iraq and Afghanistan), up 1.6 percent of GDP from 2000 but *lower* than in any year from 1975 to 1996.

Similarly, data that CBO released in January show that increases in entitlement spending account for only about one-tenth of the cost of legislation enacted since January 2001. Tax cuts (excluding refundable credits) account for 45 percent of the cost of that legislation — four and one-half times as much. (Increased discretionary funding for defense, homeland security, and international affairs accounts for 37 percent of the total cost of legislation enacted since 2000, and increased funding for domestic discretionary programs accounts for the remaining 7 percent of those costs.)

New Mechanism Would Distort Policy Debate on Important Issues

Although this new point of order would do nothing to prevent enactment of tax cuts that would substantially increase the deficit in future years, it would make it impossible to consider modest increases in spending to deal with major problems — such as providing health care for the uninsured — without either 60 votes or cuts in other entitlement programs to offset these increases.

This new point of order would heavily and inappropriately skew debate on health care policy and the uninsured. Future costs to increase Medicaid or the state Children's Health Insurance Program to cover more of the uninsured, or future costs for a refundable health insurance tax credit (which would be considered to be mandatory spending), would have to be offset by reductions in other mandatory programs. But legislation to provide new tax deductions or other tax breaks related to health insurance (other than refundable credits) for people who do not have low incomes would *not* have to be offset, even though such proposals would necessarily be much less well targeted on the uninsured population and likely be less effective at reducing the ranks of the uninsured.

As a result, the new rule would favor tax cuts for health insurance costs borne by high-income taxpayers who are already insured — the group that would benefit most from tax deductions for health-related costs because they are in the top income brackets — over measures to extend health care coverage through Medicaid or SCHIP to uninsured low-income working families. The new point of order thus is ideologically loaded and would make it difficult to have a balanced and carefully considered debate about the most effective and efficient ways to deal with the problem posed by 45 million Americans lacking health insurance.