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PROBLEMS WITH THE BUDGET ENFORCEMENT BILL COMING TO THE HOUSE FLOOR

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The House is scheduled to consider budget enforcement legislation on June 24. The legislation coming to the House floor — H.R. 4663, which is similar to legislation the House Budget Committee reported in March — would reinstitute pay-as-you-go rules for entitlement programs but exempt tax cuts from those rules. The legislation also would establish caps for two years on discretionary programs. (The version of the bill that the Budget Committee approved contained five-year discretionary caps, but the House Rules Committee made in order a version changing the duration of the caps to two years in an effort to pick up more votes for the bill.) The proposed discretionary caps for fiscal year 2006 are severe and almost certainly would force substantial cuts in domestic discretionary programs.

1. Pay-As-You-Go Rules

The House Budget Committee bill includes a proposal to reimpose the pay-as-you-go rules on entitlement programs but to exempt tax cuts from these rules. Under the pay-as-you-go rules established on a bipartisan basis in 1990 with the support of the first President Bush, both entitlement increases and tax cuts had to be paid for. Entitlement increases and tax cuts were treated the same — both had to be offset, and their costs could be offset *either* through reducing other entitlements or raising more tax revenue.

The House Budget Committee bill would reimpose this discipline on entitlement expansions only. Tax cuts would not have to be paid for. In addition, entitlement improvements could be paid for *only* by cutting other entitlements. Measures to close abusive tax shelters or other tax avoidance schemes and use the savings to finance improvements in an entitlement benefit, such as a veterans benefit or a program to shrink the ranks of the uninsured or reduce poverty, would not be allowed. Savings on the tax side of the ledger would be off limits for pay-as-you-go purposes.

This proposal, which ignores calls from Federal Reserve Chairman Alan Greenspan and a host of budget watchdog groups to apply the pay-as-you-go rules to *both* tax cuts and entitlement increases, would have a number of deleterious effects. It would leave the door open to unlimited, costly tax cuts that could raise deficits to still higher levels. The proposal also poses other problems:

- *It could tilt budget and tax policy toward affluent individuals and against low- and middle-income families.* The bulk of the federal benefits that low- or moderate-income families receive are provided through entitlement programs, such as Medicare, Medicaid, veterans programs, student loans, and the like. In contrast, the bulk of the government subsidies that flow to high-income individuals and corporations tend to come through the tax code. A rule that

requires entitlement expansions but not tax cuts to be paid for is likely to tilt the policy “playing field” toward the well-off.

- *The proposal would distort important policy debates.* Policymakers wishing to examine options to reduce the ranks of the uninsured, for example, would be faced with an uneven “playing field.” Proposals to reduce the ranks of the uninsured by broadening Medicaid coverage or expanding the State Children’s Health Insurance Program (SCHIP) would have to be paid for. But proposals to write tax breaks related to health insurance into the tax code would *not* have to be paid for. A number of health insurance tax breaks that have been proposed in the past few years would be worth the most to people in the highest tax brackets and would most heavily subsidize high-income individuals who already have health insurance. The pay-as-you-go rules approved by the House Budget Committee would confer a very large advantage on tax-cut-based approaches to health insurance (other than refundable tax credits) over program-based approaches, regardless of the relative efficiency and effectiveness of the tax-based options.¹
- *The Budget Committee’s pay-as-you-go rule would likely prove to be a failure in curbing deficits,* since it would sanction the enactment of more tax cuts by failing to impose any fiscal discipline to restrain such action. The tax code is packed with tax breaks that favor particular activities, which Alan Greenspan has referred to as “tax entitlements” and which cost many hundreds of billions of dollars a year. Moreover, if pay-as-you-go rules are imposed on program entitlements but not on these tax entitlements, tax lawyers and lobbyists are likely to design various entitlement expansions so they can be delivered through the tax code. Such an approach may result in even larger increases in deficits, since targeted tax breaks often are less efficient and more costly than comparable program expansions.

2. The Proposed Discretionary Caps

The discretionary caps for fiscal year 2006 would be very tight and likely lead to substantial, widespread cuts in domestic discretionary programs.

- The proposed appropriations cap for fiscal year 2006 would be set at \$843 billion. If defense, homeland security, and international affairs are funded in 2006 at the levels contained in the President’s budget, \$336 billion would be left under the cap for domestic discretionary programs outside homeland security.
- This would represent a cut of \$23 billion below the CBO baseline for domestic discretionary programs outside homeland security (i.e., a cut of \$23 billion below current funding levels, adjusted for inflation).
- The \$336 billion level would be \$2 billion below the FY 2006 level contained for these programs in the President’s budget. Yet the level in the President’s budget

¹ The House Budget Committee bill treats the refundable portion of refundable tax credits as entitlement increases, and so requires them to be paid for. It makes an exemption to this rule only for the continuation of refundable tax credits enacted in the 2001 or 2003 tax-cut bills.

is itself so tight that to enforce it, OMB recently sent instructions to federal agencies instructing them to include cuts in most domestic programs in their upcoming budget submissions for fiscal year 2006. The OMB guidance shows cuts even in such programs as veterans' health care, medical research at the National Institutes of Health, education for disadvantaged children (Title I), Head Start, the WIC nutrition program for low-income pregnant women, infants, and children, and Pell grants.²

The total of \$843 billion for fiscal year 2006 equals the level in the House-passed budget resolution, is \$2 billion below the level in the Bush budget, and \$9 billion below the level in the Senate-passed budget resolution.

The proposed discretionary caps would stand in contrast to the discretionary caps imposed in 1990 and 1993. The caps that House Budget Committee Jim Nussle is now proposing would necessitate significantly deeper cuts than the 1990 and 1993 caps. Moreover, unlike the caps enacted in the 1990s, these new caps would *not* be part of a balanced deficit-reduction package that puts every part of the budget on the table — including taxes — and calls for shared sacrifice.

² The House-passed budget resolution assumes a modestly higher funding level in 2006 for domestic discretionary programs outside homeland security but does so only by assuming a very low level for international affairs funding that would gut most of the President's initiatives to address global poverty and disease.